Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 2:
Secondary Research Findings

Final Report

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Prepared by
John S. Holtzman
Richard D. Abbott
Daniel C. Shaffer
Richard Koskella

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Foreword

Acknowledgements

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Rick Koskella is with IMCC. Richard Abbott is a consultant for Abt Associates Inc., Mary Mugisa was a USAID summer intern working at Abt, and Ousmane Adoum is a research assistant at Abt. Dan Shaffer is with Arizona State University (ASU). IMCC and ASU are partners on the AMIS II project.

Dr. Charles Whyte of AFR/SD/PSGE is the Innovative Approaches activity manager and a substantial and ongoing contributor to all phases and aspects of the activity, especially fieldwork, analysis, and draft enhancement.

John Holtzman of Abt Associates consolidated the individual secondary research reports into a unified document. The overall Innovative Approaches activity is managed by Jim Maxwell of AMIS II/Cargill Technical Services. Jim directed the secondary study and enhanced the individual and consolidated report with his numerous technical reviews. Jack Hopper did the final edit. Otilia Santos of Abt Associates spent many long hours formatting and finalizing the final report.

Executive Summary

USAID Missions, and to a lesser extent other donors, are designing and implementing agribusiness programs with the objective of developing more efficient agricultural product marketing systems. USAID does not yet have effective monitoring and evaluation mechanisms for these recently established programs, nor have the lessons learned from these innovative projects been disseminated to Missions.

The Africa Bureau=s SD/PSGE/PSD unit therefore requested the Agribusiness and Marketing Improvement Strategies II (AMIS II) project to implement an activity entitled A*Innovative Approaches to Agribusiness Development in Sub-Saharan Africa*.@ The purpose of this activity was to assess any donor agency=s innovative agribusiness projects in a number of Sub-Saharan African (SSA) countries and to develop case studies of agribusiness firms targeted by or benefiting from these projects. The objective of the activity is to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of Alessons learned@ and their implications for USAID agribusiness project design and implementation.

The AMIS II project was established to provide USAID access to private sector commercial expertise that would help improve agribusiness marketing. The major focus of AMIS II is on stimulating input supply and postharvest based, private sector led, economic development. The AMIS II approach is to address agribusiness marketing efficiency and effectiveness improvement, and agribusiness project impact measurement and evaluation, from a *commercial* perspective. The reports in this series are therefore more prescriptive and less descriptive than typical USAID documents and based in part on the expert judgments of analysts with extensive private sector operating experience.

The methodology used for the *Innovative Approaches* activity consisted of the following basic steps: (Step 1) identify and select Key Focus (apparent high-opportunity) Areas for research based on current USAID interests and the anticipated potential to have a positive effect on agribusiness development. The four Key Focus Areas chosenBbased on a literature review, interviews in Washington, and a field survey B were **non-traditional agricultural export (NTAE) development, association development, small and medium enterprise (SME) development**, and **financial services to agribusiness**; (Step 2) based on an initial field trip and discussions with Mission and Bureau managers, select projects relevant to activity objectives and the Key Focus

Areas that are sufficiently developed to at least start yielding lessons learned, select countries for field research based on the location of these projects; (Step 3) complete a second field trip to collect detailed information on the selected projects and do case studies on target beneficiaries, primarily via in-depth interviews with project managers, donor management, and beneficiaries; and (Step 4) analyze the information collected, extract lessons learned and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

The entire *Innovative Approaches* activity has two phases. Phase I covers East Africa and Phase II covers West Africa, Southern Africa, and three secondary literature studies. *Innovative Approaches* research findings are reported in separate volumes for East Africa (Kenya and Uganda), Southern Africa (Zimbabwe, Mozambique, Tanzania), and West Africa (Ghana, Mali, and Senegal). There are also separate volumes reporting on the Secondary Research Findings (this document) and Overall Project Summary and Conclusions.

This volume, *Volume 2: Secondary Research Findings*, summarizes the results of the literature review. It distills, from three separate reviews significant lessons learned and implications for USAID (attached in their entirety as appendices). The three reviews are:

- *Secondary Review of Innovative Approaches to Agribusiness Development in LAC and Asia* by Richard Koskella of IMCC
- *Sub-Saharan African Exports of Horticultural Products to the European Union: Consolidation and Synthesis of Studies* by Richard Abbott of Abt Associates Inc.
- *Secondary Review of Agribusiness Development Centers* by Daniel Shaffer of Arizona State University

The lessons learned and implications for USAID from the secondary research are summarized below and are presented based on the Key Focus Areas format established for all *Innovative Approaches* reports.

Non-Traditional Agricultural Export Development

USAID-funded projects in Latin America and the Caribbean (LAC) and in Asia provide valuable lessons for SSA. Non-Traditional Agricultural Export (NTAE) programs succeeded in boosting the growth of agribusinesses, exports, and jobs. A favorable

policy environment and adequate infrastructure enhanced the prospects of NTAE success. However, NTAE project designs in LAC and Asia could be improved in a number of important respects:

- **$** Private sector input should have been greater.
- **$** Project objectives needed to be narrowed and refocused.
- **$** Improve design flexibility.
- **$** Do not overestimate trade association capacity.

An early focus on developing successful pilot projects showed the best results. Contract growing promotion proved to be more workable than direct domestic and foreign investment promotion. Technical assistance at the production level was as necessary as developing market linkages.

Association Development

Institutional strengthening of public or private associations contributes to successful agribusiness development, particularly NTAE promotion. Association development was usually in support of NTAE promotion in LAC and Asia. Post-project sustainability of associations is a major problem. The charter and objectives of supported associations were often too ambitious, leading to suboptimal association performance. Associations achieved the best results when they focused on field trials and trial shipments to foreign markets. In a developing country or transitional economy that lacks a history of association formation and continuity, longer term nurturing of associations may be required in order to achieve agribusiness project objectives. Alternatively, a project could work directly with private agribusinesses, but this may increase project costs.

Small and Medium Enterprise Development

SMEs in Sub-Saharan Africa tend to be risk-averse, poorly organized and managed, not well informed about export market opportunities, and have very limited financial resources and hence are unable to invest in improved equipment and technology. When involved in NTAEs to the EU and other high-income markets, SMEs tend to ship produce to EU brokers and importers on consignment, thus assuming the entire price and market risk. Small exporters have essentially no control over export marketing channels in the EU. Reducing risks, increasing control, and enhancing returns require small to medium size NTAE exporters to negotiate contracts with EU buyers or enter into strategic alliances with EU firms that will advise them on production and postharvest handling techniques, shipping methods, packaging, and other technical

matters. In order to have enough volume to capture importers' attention, however, SME exporters need to organize, coordinate, and consolidate their shipments. Whether they do this as an exporters' cooperative, through a trade association in a particular African country, or with the help of an export promotion agency representing a particular country's exporters in the EU depends upon a number of factors, particularly the strength of existing institutions and the willingness of independent SME operators to collaborate. Without organizing, SME exporters are at a decided disadvantage in shipping to EU markets vis-B-vis large firms, which can achieve scale economies, invest in cold chain technology, and regularly export significant volumes. EU importers, who are becoming larger, higher-volume operators in order to serve multiple countries and large-volume buyers such as supermarket chains, want to minimize their transaction costs and the risks associated with dealing with smaller volume, occasional suppliers, and want to maximize the probability of regular shipments that meet stringent specifications.

Support to a wide range of SMEs, including firms that serve domestic, regional, and international markets, can be provided by several different types of intermediary organizations. This volume focuses special attention on two types of agribusiness service centers**C**agribusiness incubators and (FADCs) food and agribusiness development centers. FADCs Agribusiness incubators focus on start-up and embryonic businesses, and may offer shared office services and/or shared equipment to clients as well as managerial and technical assistance concentrate on agribusiness enterprise promotion, providing an integrated package of services to existing SMEs that seek to enter new markets, expand production, and diversify their product mix. These services include technical assistance in business planning, market research and intelligence gathering, marketing, and financial management. An FADC will also access specialized technical services in production technology and management, information systems, and functional areas of marketing (such as postharvest handling, storage, transport, processing) through an established service network. Unlike incubators, FADCs can provide equity and/or debt financing to SMEs, which rarely served by conventional sources of financing. As specialized forms of agribusiness service centers the precise mix of services that FADCs and agribusiness provide are a function of local conditions and priority needs of potential clients. AMIS II staff with industry experience feel strongly that agribusiness service centers can play a positive and catalytic role in SME development and promotion.

Financial Services to Agribusiness

While the review of innovative approaches to agribusiness development in LAC and

Asia (see section 2) does not focus on financial services, it is a central theme of the discussion of FADCs and agribusiness incubators (in section 4). At a minimum, a key function of both entities is to maintain networks of professional service providers, which include financial institutions such as commercial banks, agricultural development banks, credit unions, venture capital funds, and other financial intermediaries. As access to financial resources is typically a major constraint on SME expansion or diversification, one-stop shop intermediary organizations such as FADCs must place heavy emphasis on providing needed financial services. Given the reluctance of conventional financial intermediaries to extend loans to agribusiness firms, particularly SMEs which are not well-collateralized, FADCs will have to include an in-house financing (debt and equity) component. Hence, FADC managers and some of the board members must have strong finance backgrounds and be able to mobilize both debt and equity to finance SME expansions and integrate it with technical and managerial assistance.

Monitoring and Evaluation

The review of innovative approaches to agribusiness development in LAC and Asia, (see Appendix 1) did not focus on the quality and effectiveness of monitoring and evaluating (M&E) on USAID and other donor projects in those regions. Impact evaluation that is done is usually macro (sectoral or subsectoral) and broad-gauged. There has been little attempt to assess the impact of agribusiness projects on assisted firms, using firm-level performance measures. While USAID is aware of the need for careful M&E of ongoing agribusiness projects, few M&E systems permit the kind of cross-country comparisons needed for serious analysis. The fact that the 1993-94 CDIE agribusiness evaluation team decided to visit a limited number of countries to generate the basic information needed to compare impact in different country and agribusiness system contexts is telling. The M&E paper trail simply did not provide detailed enough information.

Ongoing tracking of African horticultural exports to EU countries should be a high M&E priority, given the proliferation of USAID-funded projects with NTAE components. A central office such as AFR/SD/PSGE/PSD could perform a valuable service to USAID Missions and NTAE projects by monitoring and analyzing EU markets for horticultural products. In addition to tracking EU imports by supplying country (volume and price by season), NTAE projects require ongoing analysis of trends, changes, and shifts in consumption patterns and marketing channels, and the competitive position of African exporters vis-B-vis competing suppliers. The best way to arrive at a valid assessment of competitive position is to interview a sample of EU importers periodically, probably at least once a year. Importers should be asked to rank different African exporters on the

basis of key factors such as their reliability as suppliers, how well NTAE products are prepared, packed, and labeled, ability to meet delivery schedules and specifications, understanding of the market requirements, and familiarity with the requirements of the export business. Importers should also be asked about important trends in the business.

Although not discussed at length in the review of FADCs and incubators, M&E of their financial performance, based on the performance of SMEs that have received FADC equity and/or debt, is a high priority. As an innovative intermediary organization, an FADC should be monitored and evaluated very frequently and carefully in the following other areas:

- **$** Effectiveness of assistance in business planning, as judged by expert analysts
- **$** Effectiveness of training provided or identified through service networks, as judged by expert analysts or based on surveys of training recipients administered at one or more points after completion of training
- **$** Timeliness and effectiveness of FADC monitoring of client (SME) production, marketing, and financial performance
- **$** Ability to access skillful and needed outside service providers, who provide valuable direct assistance to individual SMEs, either through a domestic network or selectively from outside the country
- **$** Effectiveness of an FADC in using the leverage provided by its financial resources to access other sources of funding (including conventional finance, which has typically not been available to agribusiness SMEs in developing countries)
- **$** Progress toward financial sustainability
- **$** Loan recovery ratios
- **$** The estimated increase in the value of equity holdings
- **$** Increase in clients= employment numbers
- **$** Longer term in return on investment
- **$** Level of client satisfaction
- **$** Network providers= Aassessment@ of performance

As discussed in the AMIS II *Guidelines for Food and Agribusiness Development Centers* (see Gordon and Shaffer, 1995), performance evaluations should be carried out at least once per year by outsiders (preferably one or more of the evaluators would have participated in the design of the FADC). FADCs that fail to meet reasonable expectations require strategic rethinking, redirection in some aspect(s) of implementation, or more resources to perform functions that were not originally

envisaged as necessary.

General Recommendations

AFR/SD/PSGE/PSD and USAID Missions in Sub-Saharan Africa can benefit greatly from the lessons learned on agribusiness projects in LAC and Asia, although USAID project officers and analysts need to recognize that the economic and development contexts are quite different with respect to level of economic development, infrastructure, coherence and consistency of government policies and regulations, technological sophistication, human capital levels (managerial skills, labor force literacy/numeracy/training), and other factors. An innovation that works well in LAC may not take hold all that well in an Asian or African country. For example, trade associations have flourished in Central America (under PROEXAG/EXITOS) but have been slowly and cautiously embraced in Indonesia, where business organizations are uncommon and regarded with suspicion. Similarly, an FADC might have to play far more of a financial intermediation role in SSA than in Asia, where alternative sources of finance are more readily available, and where financial markets are overall far more developed than in SSA.

Many USAID Missions began supporting NTAEs during the 1990s. Several missions redesigned earlier projects, which had (producer) cooperative strengthening (Uganda, Guatemala) or regional development (Northeast Thailand) orientations, to incorporate major NTAE promotion components. Supporting NTAE development was certainly rational from an individual mission perspective, but the agency broadly and regional bureaus more narrowly have been remiss in not assessing the aggregate impact of simultaneous NTAE promotion projects in many countries, which tended to target a narrow range of markets and products.[0] This can be rectified in the case of the EU market by doing a more systematic job of tracking major markets for key horticultural, floricultural, and other NTAE products. It is of the utmost importance that this effort go beyond analysis of secondary volume and price data. Formal surveys of a sample of key importers are strongly recommended in order to gauge the competitive position of different developing country suppliers. Logically, either a central bureau or a regional office of USAID should fund, oversee, and coordinate such a survey, as this would benefit numerous USAID Missions and projects and avoid costly duplication.

[0] A World Bank agribusiness advisor reported that Bank funding of shrimp promotion schemes in multiple Asian and LAC countries led to world market saturation and financial problems for many of the producing firms and countries.

As a refinement and specialized application of an agribusiness service center, an FADC is now a well-formulated concept and potential innovation whose time has come to be funded by USAID or another donor or foundation/NGO. AMIS II staff believe strongly that nontargeted, multisectoral business development centers are unlikely to be successful in many developing country contexts. An FADC, operating under tight controls and private sector management, can fill a key gap or niche in integrated service provision to SMEs. As quasi-formal enterprises with limited funds, SMEs have trouble accessing conventional finance and paying the full cost of needed services (technical assistance in business planning, financial management, production/processing technology and techniques, marketing strategies and functions, etc.).

Currently, donors are enamored of microenterprise development and microenterprise and small business creation. According to GEMINI-funded work, microenterprises tend to flourish during bad times and fade during good times (see Liedholm and Mead, 1993). As part of an informal social safety net, microenterprises appear to play a valuable role. But as an engine of economic growth and wealth generation, microenterprises do not rate highly. Microenterprise development programs can play an important role in Agraduating@ firms from microenterprise to small enterprise status. **There is clearly a pressing need, however, to support SME expansion and diversification more efficiently and effectively**. SMEs are very much the "missing middle"[0] in private enterprise promotion programs in developing countries, particularly in SSA. **FADCs are one innovative vehicle for rigorously screening and <u>directly</u> assisting SMEs in the agribusiness system. Since the agribusiness system accounts for a significant proportion of GDP in most developing countries, creating FADCsCas opposed to small business development centers (which attempt to satisfy all comers)Cis a rational, high-impact use of scarce resources**.[0]

[0] This term was coined by Keith Marsden in *African Entrepreneurs: Pioneers of Development*, IFC Discussion Paper No. 9, 1990.

[0] Note that the agribusiness system cuts across what are conventionally thought of as sectors: agriculture, industry, the service sector, energy, transport, and the extractive sector (forestry products, petroleum or coal products used to fuel agro-industries, and transport systems serving agribusiness). While agriculture's (i.e., agricultural production's) share of GDP decreases as national incomes rise, agribusiness' share increases for low and lower-middle income countries.

List of Acronyms

ADB	Agricultural Development Bank (Ghana)
AfDB	African Development Bank
AgEnt	Agricultural Enterprise
ANEPP	Agricultural Non-Traditional Export Promotion Project
APDF	African Project Development Facility
ASAL	Agricultural Sector Adjustment Loan
BIC	Business Innovation Center
CAAS	Cooperative Agriculture and Agribusiness Support Project
CDIE	Center for Development Information and Evaluation
DHV	DJveloppement De La Haute VallJe
FADC	Food and Agribusiness Development Centers
FDA	Food and Drug Administration
GEMINI	Growth and Equity through Microenterprise Investments and Institutions
HORTIMEX	Brazilian Horticultural Export Promotion Organization
IDB	Inter-American Development Bank
IDIL	The Instituto Nacional de Desenvolvimento da Industria Local
IFC	International Finance Corp.
KEDS	Kenya Export Development Support
LAC	Latin America and the Caribbean
MAELSP	Madagascar Agricultural Export Liberalization Support Project
MARD	Sri Lanka Mahaweli Agricultural and Rural Development Project
MED	Mahaweli Enterprise Development
NTAE	Non-Traditional Agricultural Export
PROCHILE	Promotion Chile
RAP	Regional Agribusiness Project
SBDC	Small Business Development Corporation, Ltd.
SME	Small and Medium Enterprise(s)
SSA	Sub-Saharan Africa
TA	Technical Assistance
TBC	The Business Center
TVCF	The Tanzanian Venture Capital Fund
USDA	United States Department of Agriculture

Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 2: Secondary Research Findings

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1. Introduction

Sub-Saharan Africa (SSA) has benefitted from approximately one decade of heightened donor and African government interest in agribusiness development. While efforts to develop agribusiness were limited primarily to strengthening parastatals and working with producer cooperatives. Subsequent efforts have focused increasingly on more innovative approaches, include the following:

- **$** Creation and strengthening of member-driven trade associations that strive to provide desired and timely services that meet members' needs

- **$** Promotion of non-traditional agricultural exports (NTAE) to high-income markets, particularly EU markets

- **$** Strengthening of intermediary organizations, generally in the private sector, that foster and support agribusiness development

Trade and industry associations did not play a significant role in agribusiness development in SSA before the 1990s. The most common association in many countries is the chamber of commerce, a multipurpose and multisectoral organization that tends to over represent non-agricultural export/import operations and urban-based construction, transport, and service sector firms. Agribusiness has historically not been well served by these organizations, whose leadership has sometimes been appointed by governments, and whose financial support has often come in part from government sources (e.g., transport or import/export taxes earmarked for chambers of commerce). Some agribusiness or agricultural export associations did exist prior to the 1990s, but their numbers have grown substantially during the 1990s. Associations such as the Fresh Produce Exporters Association of Kenya, formed in 1992, and the Syndicat des Producteurs des Extraits Aromatiques de Madagascar, an essential oils association created in 1994, have emerged, have expanded their membership, and are now exercising political clout as lobbying organizations and working closely with USAID to promote exports of products of particular commodity subsectors.

USAID designed and implemented NTAE promotion projects beginning in the early to mid 1980s in Latin America and the Caribbean (LAC). Several of these were very successful, including PROEXAG in Central America and PROEXANT in Ecuador, and stimulated broader agency interest in NTAE promotion. By the early 1990s a number of NTAE projects with a broad scope had been designed by USAID missions in SSA, and earlier agribusiness development projects had been redesigned to focus on NTAE promotion or to incorporate an NTAE dimension. In the former category is, the Kenya Export Development Support (KEDS) Project, the Guinea Agribusiness Export Project, and, the Agricultural Non-Traditional Export Promotion Project (ANEPP) in Uganda. Redesigned projects include, or the Cooperative Agriculture and Agribusiness Support Project (CAAS) in Uganda, Madagascar Agricultural Export Liberalization Support Project (MAELSP), and the DJveloppement de la haute vallJe (DHV) Project Mali. As implied above, the conceptualization and design of these NTAE projects in SSA were influenced, directly or indirectly, by the LAC experience. USAID also designed major agribusiness development projects with NTAE components in Morocco (Morocco Agribusiness Promotion Project), Jordan (Agricultural Marketing Development Project), Indonesia (Agribusiness Development Project), and Sri Lanka Mahaweli Enterprise Development (MED) and Agricultural Enterprise (AgEnt) Project The USAID agribusiness projects in Asia were informed, to a certain extent, by earlier projects in Thailand (Integrated Agro-Production and Marketing Project, which grew out of two earlier related projects) and Sri Lanka Mahaweli Agricultural and Rural Development (MARD) Project.

Strengthening non-governmental intermediary organizations, including trade associations thus, has emerged as a major USAID agribusiness thrust in the 1990s. Foundations and business development centers have received some attention, although the latter, modeled on the U.S. small business incubator concept, tend to be multisectoral in orientation rather than exclusively focused on agribusiness. USAID creation of new (Southern Africa Enterprise Development Fund) or support existing (IFC's, the African Project Development Facility (APDF)) business promotion entities has led to new sources of financial and technical support for agribusiness ventures. Other financial institutions, whether oriented toward commercial or agricultural development, also have received support, encouragement and some technical assistance in providing more financial support to private sector agribusiness (i.e., beyond the farm). Finally, ongoing parastatal downsizing, restructuring, redefinition of roles, and privatization have begun to remove one set of constraints on private sector agribusiness activity, namely the typically subsidized operations of staple food crop marketing boards and the financial crowding out of private sector firms that large,

inefficient yet well-funded parastatals tend to induce.

In this volume, we provide a selective review of available literature on three topics related to innovative approaches to agribusiness development, as follows:

- **$** Innovative approaches to agribusiness development in LAC and Asia, with particular attention to development of trade associations and promotion of NTAEs

- **$** SSA horticultural exports to the European Union: findings, competitiveness, and opportunities for improvement

- **$** The experience of food and agribusiness development centers (FADCs) worldwide, and the potential opportunities for and pitfalls of creating viable FADCs in SSA

The reason for selecting these topics as part of the *Innovative Approaches to Agribusiness in SSA* are as follows. Findings from the LAC and Asia review provide examples of alternative paths of agribusiness development, which can be compared and contrasted to SSA projects and project contexts. The EU market for horticultural products is examined because it is the principal high-income destination for SSA exports. AMIS II also wanted to better understand post-export marketing channel organization and dynamics and determine if there are gaps in USAID's knowledge base. FADCs were chosen because they are a high-opportunity mechanism for promoting small- and medium-scale agroenterprise development. In all three cases, an attempt was made to expand the geographic scope of the *Innovative Approaches* activity beyond SSA.

2. Innovative Approaches to Agribusiness Development in LAC and Asia

This section draws on a review of selected literature entitled. *Secondary Review of Innovative Approaches to Agribusiness Development in LAC and Asia*, which examines agribusiness projects since the early 1980s, funded primarily by USAID, in ten LAC and Asian countries, as well as a number of World Bank-funded grant credit and equity schemes. The following subsections summarize lessons learned in the areas of trade association development and NTAE promotion. The full report appears in Appendix A.

2.1 Brief Summary of the Projects Examined

The countries and projects surveyed are presented in ta le 2.1. In general, it was found that the

COUNTRY	PROJECT	TIMEFRAME	SPONSOR
Bangladesh	Export Development and Promotion	1/93 - 1/96	UNDP
Bolivia	Agro-export Development Program	1992-1997	World Bank Netherlands
Ecuador	Non-Traditional Agricultural Exports I, II	1984-1988 1989-1994	USAID
Guatemala/Central America	Non-Traditional Agricultural Export Support Project	10/86 - 9/91	USAID
Honduras	Export Development and Services	1984-1993	USAID
Indonesia	Agribusiness Development Project	4/93 - 9/97	USAID
Jamaica	Crop Diversification and Irrigation Project	1985-1993	USAID
Various	Grant Credit and Equity Schemes	1995-1999	World Bank
Peru	Non-Traditional Agricultural Export Promotion	1984-1986	USAID
Sri Lanka	Mahaweli Enterprise Development Project; Agric. Enterpr. Project	1990-1995 1992-1997	USAID

Thailand	Integrated Agro-production & Mktg; Earlier related projects	1987-1991 1977-1988	USAID Thailand

World Bank and regional development banks have tended to focus on areas other than non-traditional agricultural export (NTAE) development, such as traditional crop development, infrastructure development, input supply, and institutional development. USAID has been the leader in large-scale NTAE development projects, though other donor agencies have conducted some projects.

2.2 Lessons Learned: Association Development

Agribusiness and export associations of many types were used as vehicles for NTAE project implementation, especially in the LAC region. While the World Bank and UNDP provided support to government-sponsored export development agencies, such as the Export Promotion Board of Bangladesh, USAID worked with privately based associations where possible. Association strengthening was one objective of many projects, but the major objective was generally to expand exports by channeling technical assistance (TA), market intelligence, and agricultural support services through developing country associations, which served as intermediary organizations. The alternatives to using an association were either to provide the funds to a government agency or to have industry practitioners or a consulting firm work directly with local companies.

The following are specific lessons learned in the area of association development.

Institutional strengthening of public or private associations contributes to successful agribusiness development, particularly NTAE promotion. There is broad agreement on the need for competently staffed and effective associations for purposes of both private sector development in general and NTAE promotion in particular. The Indonesia Agribusiness Development project is an example of straightforward institutional strengthening, with a component of the project and a full-time member of the consultant team dedicated to helping agribusiness associations improve member services and provide more aggressive promotional activities.

Association development was usually in support of NTAE promotion. Most often, institutional strengthening was viewed as an intermediate step to NTAE promotion. This was the case in almost all NTAE projects sponsored in LAC, both at the country level through indigenous associations and at the regional level through the PROEXAG project. There were more diverse approaches in Asia, where projects in Thailand and Sri Lanka focused directly on farmers and farmer organizations, and a project in Nepal established private sector agribusiness associations.

Post-project sustainability of associations is a major problem. An important objective of most agribusiness projects with association development components was to establish self-sustaining agribusiness associations**C**groups whose value- added services were so successful and in such demand that local firms would pay for the necessary services. Unfortunately, the level of services and revenue generation declined in most cases after the projects ended.

The implication for USAID and the Africa Bureau is that the agency needs to develop criteria for evaluating associations ex ante in order to determine which ones to support. Key criteria are likely to be membership numbers and recent growth, the amount and source of funds (from dues, government or donor grants, taxes), the dynamism and business orientation of association leadership, progress toward self-sustainability, and services provided to membership and membership judgments as to their value. Note that a strong, well-funded, and effective association, driven by member needs, is unlikely to need donor assistance. Hence, ex ante assessments will look more at the potential of trade associations, recent trends, the capability and vision of leadership, and how services to members can be expanded, improved, and strengthened (AMIS II plans to develop *Agribusiness Assessment Guidelines: Trade Associations in 1996.*)

The charter and objectives of supported associations were often too ambitious, leading to suboptimal association performance. In many cases, such as the Export Development and Services Project in Honduras, evaluators faulted the project design for assigning either too ambitious or too vague a charter to the local association. In trying to be all things to all people and develop a wide range of services too quickly, the organizations were chaotic and ineffective. Often a serious mid-course correction was required. This was compounded, at times, by erroneous initial assumptions about the export strategy and product focus. The lesson for USAID, then, is that trade associations need to establish, or to function in support of, a coherent strategy and product/activity focus before expanding services to members.

Associations achieved the best results when they focused on field trials and trial export shipments to foreign markets. Associations that focused initially on developing elaborate databases and market information systems tended to get bogged down in these initial tasks to the detriment of broader project goals. Associations that focused on crop field trials, producing NTAE for which there were niche or counter seasonal marketing opportunities, and trial shipments of produce to high-income markets moved up the export learning curve faster and achieved more credibility with the private sector. Hence, their focus was on facilitating and consummating transactions rather than only on providing market information.

In a developing country or transitional economy that lacks a history of association formation and continuity, longer term nurturing of associations may be required in order to achieve agribusiness project objectives. Alternatively, a project can work directly with private agribusinesses. In Indonesia, where associations have typically been weak and shunned by the private sector, an appropriate project strategy was to nurture several associations without focusing on exports. The focus was on helping them develop effective member services and a more coordinated voice on policy matters. In a remote rural areas, such as Thailand=s Lam Nam Oon region, the most effective strategy is to work directly with small farmers and farmer organizations to help them develop contracts with larger agribusiness groups. The lesson for USAID is that an important first step in project design is to assess the local environment or culture for associations, and the historical track record of trade associations, in order to ensure that association or institutional strengthening programs are consistent with the local culture.

2.3 Lessons Learned: Non-Traditional Agricultural Export Development

NTAE promotion has been a common theme of agribusiness development programs throughout Latin America and Asia, driven largely by declining commodity prices for traditional exports, the loss of market share by many countries for their traditional export products, and the need to develop other sources of foreign exchange. The impressive expansion of Chile=s NTAEs through the 1970s and 1980s, stimulated in part by PROCHILE and the Fundacion Chile, created a model that many countries have tried to duplicate. Spearheaded by USAID in LAC beginning in the early 1980s, NTAE promotion was seen as an appropriate way to focus USAID=s limited resources in an area of potentially high return with a broad-based distribution of benefits. With much larger project and Agricultural Sector Adjustment Loan (ASAL) resources, the World Bank and the regional development banks (ADB, IDB, AfDB) have continued to focus on large-scale traditional export crop programs, often seeking to revitalize a declining traditional crop subsector at a country or regional level. Thus, most World Bank and regional development bank projects**C**such as plantation tree crop replanting**C**do not have relevant lessons for NTAE promotion. The following points summarize the lessons learned from the desktop review of LAC and Asia NTAE projects as well as discussions with project staff.

NTAE programs succeeded in boosting the growth of agribusinesses, exports, and jobs. Agribusiness firms (e.g., processors, large companies, service firms) as well as small farmers benefitted from NTAE projects, with small farmers often the main

beneficiary, as in Guatemala, Sri Lanka, and Bangladesh. Large agribusiness firms often proved to be the main linkage between small farmers and the international marketplace**C**whether or not they were targeted as an intended beneficiary or project intermediary. Contract farming proved an effective means for giving small farmers access to national and international markets, as in the Northeast Thailand project.

A favorable policy environment and adequate infrastructure enhanced the prospects of NTAE success. Macroeconomic policy reform and government commitment to privatization and infrastructure development were important for projects to succeed. While many governments submitted to largely donor-driven structural and sectoral adjustment programs, implementation of reform was often incomplete or the bureaucratic resistance to change was high. This issue was so important that a major recommendation of the CDIE evaluation of NTAE programs was that "the main focus of USAID agribusiness programs should be to improve the policy, regulatory, and institutional environment. Direct and indirect assistance to individual enterprises should be secondary" (see Kumar, 1994). Note that this conclusion is based on the assumption that the enabling environment is poor; it may not be an appropriate focus in countries where the enabling environment has significantly improved.

Despite the CDIE conclusion, several projects were able to meet NTAE objectives in a variety of policy settings, where enabling environments were far from ideal. Furthermore, projects that succeeded in NTAE promotion were often working at such a local and small-scale enterprise level that they were poorly placed to influence governmental policies.

NTAE project designs were flawed in a number of important respects:

1. **Little private sector input.** Project design often received little or no input from the private sector. Projects that succeeded did so frequently in spite of the project design, typically after significant mid-course adjustments. A common theme in NTAE project evaluations was criticism of the designs as lacking in clear strategic vision, proper focus, flexibility, and an appreciation of the limitations of local the associations that were expected to promote exports.

2. **Too broad or misplaced a project focus.** Many projects were initially hurt by too broad and general an orientation, as opposed to a more effective focus on undertaking field and market tests and building on the success of pilot projects. Designers often missed entirely the appropriate product focus of the country. This was due in some cases to the lack of detailed research or an understanding of comparative advantage.

In other cases, basic information on production and marketing costs was so poor or incomplete that it was difficult to know where comparative advantage lay until project activities got under way and feedback loops were established between the growers and the markets. A related problem was a design focus on early development of market information systems and computer-based management information systems, whereas the producers really needed focused TA, trial orders, initial customer contracts for new products, and customer feedback.

Given the large time lag between the project design and implementation phases of projects, and the dynamic nature of the international supply/demand situation for non-traditional agricultural products, *project designs should incorporate an **analytical system** for identifying potentially profitable NTAE products*, and not try to identify the actual product focus. In quite a few projects the product focus ended up on products not foreseen in the design documents. Furthermore, TA efforts sometimes had to be radically redirected to support actual requirements for TA and pilot projects**C**which came to be seen as a necessary first step in broader NTAE success. In most cases, the first steps should have been an assessment of international and regional market opportunities, and an analysis of the exporting country's comparative advantage. This market research should be followed by a series of field trials and pilot shipments to determine which non-traditional products can be adapted to local growing conditions as well as meet particular foreign market windows, requirements, and preferences.

3. **Inflexible design.** Flexibility in project design was often lacking, with scope of work, expertise, and budgets locked into the original plan. Project managers and contractors had difficulty modifying scopes of work to meet what were often fundamentally changed project needs. In Honduras, for example, a special evaluation was required to identify the many problems of the project and propose workable changes.

4. **Trade association limitations.** The weakness and limitations of trade associations for supporting NTAE objectives were often not appreciated in the design phase, and overly ambitious goals and plans were established for these organizations. In the worst cases, this resulted in chaos and ineffectiveness. At best, severe growing pains plagued the host organization, as it struggled to develop services and delivery mechanisms needed by its clients.

An early focus on achieving successful pilot projects showed the best results. Projects that provided TA and support for <u>successful</u> pilot or demonstration projects had several advantages. First, by focusing on the pilot projects, the project team was able to develop the knowledge required to bring new NTAE players together. Second, the

project and the host association established early credibility. Finally, the "demonstration effect" motivated additional producers to grow NTAE products, thus leveraging the project resources and increasing the return. Note, however, that prior market research and comparative advantage analysis are required to identify potentially successful pilot projects. Simply initiating pilot projects in an ad hoc manner for a broad range of non-traditional products is likely to be inefficient, and is therefore ill-advised.

Contract growing proved to be more workable than direct domestic and foreign investment promotion. Projects generally had little success attracting foreign agribusiness companies to be direct investors or joint venture partners in developing country NTAE projects, despite the fact that this was often a priority objective stated in the project design. On the other hand, linking foreign companies to local producers or producer associations through production and sourcing contracts, typically through domestic firms and exporters, proved easier to "sell" and served as a better vehicle for NTAE growth in general. In a remote region of Northeast Thailand, for example, which had been bypassed by the country=s agribusiness growth, a successful approach was to help small farmers develop a few sourcing contracts with the country=s large agribusiness groups. Over time, these contracts increased dramatically, resulting in increased employment and income to the region, and a diversified agricultural base.

While multinational agribusiness firms and foreign importer/distributors are reluctant to invest directly in growing operations in "problematic" developing countries, they have proven willing to invest time, materials, and technical assistance in support of contracts with local growers, typically via intermediary firms and exporters. Thus, an initial focus on field trials often demonstrated the production capacity to agribusiness firms, which were then willing to provide longer term growing contracts and the requisite support.

Technical assistance at the production level was as necessary as developing the marketing linkages. Despite a typical initial focus on the marketing side of the equation, substantial production assistance was often required to introduce and teach the growers about new products and how to improve production and postharvest handling practices for existing products. While production assistance is sometimes provided by the buyer to upgrade existing products, the TA had to be provided by the project teams for start-up NTAE projects. At the same time, the development of export linkages was a key contribution of the projects, as growers are usually unable to succeed in that area.

3. SSA Horticultural Exports to the EU: Constraints, Findings, Competitiveness, and Opportunities for Improvement

This section draws on a literature review entitled *Sub-Saharan Africa Exports of Horticultural Products to the European Union: Consolidation and Synthesis of Studies*. It summarizes constraints facing SSA exporters of horticultural products, key findings from the literature, competitive strategies for acquiring market share, and USAID information needs and an action agenda. The full report appears in Appendix B.

3.1 Constraints Affecting African Horticultural Exports to the EU

African exporters of high-value foods, particularly small- and medium-sized enterprises, face a number of constraints that affect their ability to be competitive in European markets, or act as barriers to entry facing newly formed companies. These constraints are common to exporters in most developing countries but several are particularly serious in Africa.

3.1.1 High Transaction Costs

Jaffee and Morton (1995) note that high A transaction costs@ characterize the international marketing of high-value foods, including horticulture crops. For the exporter, these costs are associated with obtaining reliable information on market conditions and opportunities in the importing country; determining the financial status of buyers and agents in distant foreign markets; and lack of face-to-face contact with buyers, leading to extended bargaining over prices, quality, delivery times, and resolution of disputes. The importer may also incur transaction costs associated with dealing with suppliers at long range, their failure to meet delivery schedules, and their difficulty in meeting product specifications, thus making it necessary to re-sort and re-grade produce on arrival. Some successful African exporters, particularly those of Asian and Lebanese ethnicity, deal with this problem by establishing family-owned trading companies in the importing country.

3.1.2 Costly Access to Market and Technical Information

Access to market and technical of information on a regular and sustained basis requires investments that may be beyond the means of small enterprises. Modern telecommunications offer many advantages to the small trader but require investments

in computers, phone and fax equipment, and training of personnel in identifying, accessing, and interpreting the available data in order to fully benefit from market information systems. If a horticultural exporter is unwilling or unable to subscribe to a service that provides detailed import volume and price data for major terminal markets, she/he may rely upon a representative or a trading partner in one or more terminal markets. This can also be costly, and the reliability of the data may be suspect. The most effective market intelligence is obtained by actually visiting wholesale markets, supermarkets, shops selling fruits and vegetables, and importers in foreign markets. This form of market research is very costly, however.

3.1.3 Inadequate Infrastructure

In comparison with developing countries in other parts of the world, African nations are poorly endowed with roads, telecommunications, seaport facilities, and air cargo services. Infrastructure maintenance is also inadequate, leading to dilapidated and outmoded transport infrastructure and marketing facilities. The poor state of rural roads serving widely dispersed small growers in outlying areas adds substantially to the cost of assembling produce for export. Infrequent and costly air freight service to Europe is a major problem for exporters of perishable products. Insufficient cold storage facilities at airports is a constraint in a number of SSA countries.

3.1.4 Limited Access to Credit

The commercial banking sector is generally not well developed in Africa, and in many countries is at least partially under state ownership. The result is a rationing of credit to the private sector and**C**in some countries**C**the channeling of available debt to inefficient state enterprises. Limited commercial credit may be available only to large enterprises that can meet the collateral requirements of banks, such as urban real estate. Government credit schemes benefiting small farmers and businesses, have proven costly to run and difficult to sustain, requiring ongoing subsidies. Clearly, innovative financing schemes are needed.

3.1.5 Lack of Interest by Foreign Investors

The political and economic problems of African countries have discouraged foreign investors who could provide the capital, technical expertise, and access to markets**C**preferably in the form of joint ventures with African entrepreneurs**C**to improve export performance of the horticultural subsector of these countries. Direct investment by Europeans in food processing and exporting ventures in Africa since independence

has tended to be by firms that located there before or during the 1960s and as a result have intimate knowledge of local market, political, and economic conditions. Furthermore, some governments impose legal, regulatory, foreign exchange, and other financial restrictions (e.g., concerning profit repatriation) on foreign investment**C**a legacy of colonialism and the previously dominant role of European-owned trading companies. Political instability and uncertainty facing investors regarding government policies and regulations are major disincentives to foreign investment. Finally, limited domestic markets and constraints on intraregional trade, which limit access to regional markets, are perceived as detrimental.

3.1.6 Raw Material Procurement Problems

Ensuring an adequate and timely supply of quality raw material is a serious problem facing agricultural marketing and processing enterprises throughout Africa. Only large-scale vertically integrated enterprises, such as those in Kenya and Zimbabwe, have been able to overcome this constraint. It is the primary reason for low capacity utilization of packing and processing facilities and resultant high unit costs, which often make African products uncompetitive on world markets. The causes are well known: widely dispersed small-scale producers, poor transport facilities, heavy dependence on sporadic rainfall rather than irrigation, lack of credit to purchase inputs, and poor postharvest handling. Contract farming has proven successful in only a few instances and usually only with large outgrowers.

3.1.7 Risk Aversion of Small African Entrepreneurs

Given the environment within which they operate, it is understandable that small African entrepreneurs tend to be risk averse and unwilling to make long-term investments in fixed assets. Risk is typically minimized by diversification into a broad range of perishable and nonperishable items, with the result that they cannot achieve economies of scale through use of specialized equipment or procure large lots, or acquire the expertise it takes to succeed in exporting particular horticultural products to the highly competitive European market. In addition, African entrepreneurs**:** experiences contending with government intervention in food marketing, such as bans on trading in certain commodities, licensing of trading rights, and import quotas, as well as bureaucratic delays and corruption, did not provide them with good training compete in the liberalized free-trade environment many African governments are now endeavoring to create.

3.1.8 Limited Management Skills and Capacity

Quite a few African exporters have limited export and marketing management skills, which puts them at a competitive disadvantage in the EU market vis-B-vis more sophisticated suppliers from other countries. While a class of well-educated entrepreneurs is emerging in SSA, their business experience is limited. In the ultra competitive international markets for horticultural products, learning gradually by trial and error is a costly way to gain the requisite experience. Clearly, there are opportunities for donors, using contractors with international business and marketing experience, to strengthen business management skills. Furthermore, projects such as *Innovative Approaches to Agribusiness Development in SSA* are designed to distill significant lessons from agribusiness projects and innovations in Asia, LAC, and SSA, which can serve as an empirical base upon which further agribusiness promotion efforts build.

3.2 Selected Findings from the Literature Review

3.2.1 EU Market Trends

The EU market for fresh horticulture products has expanded, as part of the general trend toward healthier diets. There is increasing demand for Aexotics@ or tropical fruit, such as mangoes, papayas, and avocados, as consumers seek to diversify their diet with new and interesting fruit. In contrast, there appears to be an oversupply of temperate climate fruits and vegetables in the off-season both from within the EU, now that Spain and Portugal are included, and from non-EU countries such as Morocco and Turkey, which have rapidly increased production in recent years and are very competitive due to their proximity to Europe.

Because many consumers lack familiarity with exotics, they tend to buy on the basis of appearance rather than price, putting a premium on quality. In contrast, buyers of A ethnic@ items, such as Asian vegetables, tend to be lower income people who buy mainly on the basis of price. Imports of cut flowers are increasing at a faster rate than those of fruit and vegetables.[0]

3.2.2 Changing Organization of the EU Food System

In the EU, there is increasing concentration in the wholesale food distribution system,

[0] As of 1991, export revenues from flowers exceeded those from fruits and vegetables in Kenya (Nyoro, 1993).

as large importer/wholesalers serve increasingly powerful supermarket chains, or large specialized importers sell throughout the EU from a base in one country. This represents a collapsing of marketing system levels or stages, whereby buying power is increasingly concentrated in a declining number of players. Furthermore, the rise of supermarkets in the EU will force horticultural produce suppliers to satisfy more stringent requirements on quality, packaging, delivery, and minimum size orders. On the other hand, smaller specialized importers will continue to look to African exporters to supply more exotic items, since the largest wholesalers and supermarket chains will not stock small volumes of specialty items.

3.2.3 EU Marketing Opportunities and the Competitiveness of SSA Exports

Given the relatively modest quantities shipped from individual African countries to the huge European market, and the numerous competing suppliers from South and Central America, North Africa and the Near East, the EU horticultural market is a buyers= market. The competitiveness of African suppliers in this market is therefore of paramount importance. Competitiveness is achieved not only by competing effectively on the basis of price and quality, but also on several other factors:

Efficiency of supply. An Aefficiency of supply@ index for ranking exporters according to the evaluation of interviewed importers was developed by two German analysts (Hoermann and Will, 1987). Evaluation criteria that enter into the efficiency rating, ranked in order of importance as judged by importers, are as follows:

- Basis of trust between importer and exporter
- How well products are prepared, packed, and labeled
- Exporters= understanding of the market requirements, including phytosanitary regulations
- Sufficient quantities supplied and uniform shipments
- Observance of delivery dates
- Familiarity of the exporters with the requirements of the export business (business language usage, export techniques, financing procedures, etc.)
- Settlement of complaints

Quality. Concerns importers= views on varieties exported, including color, shelf life, degree of ripeness, and evidence/absence of spots or bruises, which importers felt were a function of care in harvesting, sorting, and packing as well as the stability of boxes used to protect the fruit during transport.

Exchange of information. Criteria included (1) how well suppliers inform importers about expected production levels, (2) whether important information was withheld or passed on, (3) how well suppliers understood the development of production in their country, (4) understanding of quality requirements, (5) how well importers were informed about quantities exporters could deliver, (6) informing the importer in advance when agreed delivery dates could not be observed, (7) ability of the importer to contact the exporter on short notice, and (8) language barriers.

Participation in importers= advertising and sales promotion. Importers were asked whether exporters from non-European countries had participated in advertising or sales promotion activities of their company for tropical fruit, either financially or in another way during the past two years. Some organizations from non-African suppliers contributed funds for joint advertising and sales promotion efforts and provided products free of charge for point-of-sale tasting by consumers. They also provided printed material such as posters, leaflets, and recipes for sales promotions.

Packing of fresh produce. Fruit should be shipped in a box that is not only attractive but also strong enough to protect the quality of the fruit during transport.

Sea transport. Problems had to do with the wrong degree of ripeness or different degrees of ripeness in the same box, insufficient transport technology, incorrect operation of refrigerated containers, incomplete cooling chain, and delayed arrival of ships.

3.2.4 EU Market Channel Dynamics

The concentration of buying power and assignment of supply responsibility to a very few wholesalers has shortened the marketing chain in the segment serving the large supermarket chains or Amultiples,@ enhanced the influence and importance of these chains, and led to the development of large importer/wholesalers who can provide the range, diversity, reliability, and year-round deliveries of produce required. These well-financed firms typically invest in the storage, ripening, quality control, and re-packing facilities needed to serve large buyers. The creation of a ASingle Market@ in the EU is

also leading to the emergence of large importing enterprises that sell (or Are-export@) throughout the EU, particularly in the Netherlands. Concurrent with the increasing importance of the large importer/wholesalers is the declining role of wholesale and auction markets.

It is difficult for African exporters to meet the requirements of these large dealers. Most African exporters sell to small importers who specialize in particular items or in particular countries, often on a consignment basis. In the opinion of the trade, these specialized dealers in Aexotics@ will continue to supply items in lower demand such as mangoes and papayas, as well as specialty items like guavas, passion fruit, and tamarillos, because large wholesalers prefer not to deal in low-volume produce. African exporters are most successful when they establish long-term marketing links with importers, often in some type of joint venture. This is typical of some Kenyan exporters of Asian descent who have trading companies in Europe operated by members of their family.

3.2.5 Exporters' Management of Market Channels

Few African exporters have knowledge about or control over the marketing of their exports and cannot be truly said to Amanage@ market channels in Europe. The EU market for off-season fruit and vegetables, ethnic crops, Aexotic@ fruit, and flowers has a wide range of suppliers to choose from in Africa, Asia, and Latin America.

Despite limited opportunity for channel management, exporters can enter into institutional arrangements with foreign buyers which reduce the risks and enhance the returns relative to relying entirely on open market sales, spot market sales, and sales on consignment. Such institutional arrangements include the following:

- **$** Contract coordination through multishipment sales contracts **C** seasonal or annual contracts for delivery

- **$** Longer term alliances between exporters and importers, not involving ownership

- **$** Ownership integration - long-term contracts with trading partners, sometimes involving joint ownership of marketing facilities or sharing of marketing costs

- **$** Government coordination, which may involve simply an African country supporting an overseas promotional office, but sometimes also direct government participation in negotiations

Most African produce shipments are made on a consignment basis without any guarantees. Many importers operate on a commission basis, earning 5 to 8 percent of the sale price, and remitting the balance to the exporter after deducting handling costs such as inland transport. Importers readily reject substandard shipments and may turn to alternative suppliers after several bad experiences. Long-term contract arrangements on an annual or seasonal basis are possible but only based on successful trading relationships built up over time. Once a good trading relationship is established, and assuming that the exporter is a large enough supplier to warrant it, importers may be willing to travel to the exporter=s country and offer technical advice on how best to meet current market requirements.

To **maximize exporter management or control of goods in the importing country**, the literature emphasizes the importance of the following:

$ A large well-equipped packing facility with cold storage and refrigerated transport, located in the exporting African country

$ Availability of substantial financial resources

$ Good management with an understanding of technical and market requirements

$ Reliability**C**meeting delivery schedules with consistent high quality product

$ Good communications with the importer and quick response to changing needs

$ Flexibility to work closely with the importer on special requirements, such as pre-packing of produce items in shrink-wrapped trays for direct shipment to supermarkets

$ Willingness to share the cost (with retailer or wholesaler) in promotional programs in the importing country

Size of the operation and the resources available to the exporter are of utmost importance if the firm is to deal in the quantities required and sort, grade, and pack the product to meet market requirements. **To ensure reliability of supplies, a number of studies suggest that the operator control a majority of the needed raw materials rather than rely too heavily on outgrowers**.
The development and maintenance of long-term relationships with importers was

viewed as critically important, given the lack of bargaining power of most African exporters. One report noted that to be successful at this, exporters must become Agood suppliers@**C**trading partners who consistently meet the requirements noted above. **Exporters should strive to offer importers a complete A service package***,@* which means meeting precise requirements as to quality, uniformity, maintenance of temperature control throughout the cold chain, large-volume shipments, adherence to precise delivery schedules, good packaging and in many cases pre-packaging of products, and documented pesticide control procedures.

To succeed in the demanding EU market, an African export enterprise be big, well financed, and well managed, preferably with close links to European importers (or producer associations that also import). Smaller companies can, however, survive by serving niche or ethnic markets, but only if they develop close working relationships with specialized importers based on mutual trust**C**which appears to work mainly when it involves members of the same extended family. The other way for small enterprises to survive is to pool resources and form larger groupings, which would, for example, operate a modern packing house, handle enough volume to command good air freight rates to Europe, and merit the interest and attention of large importers.

Recommended Interventions to support Horticultural Exporters: A comprehensive approach to improving the performance of African horticultural exporters requires:

- **$** Exploring new export market (country and product) opportunities, not only in Europe
- **$** Providing direct firm-level TA to processors and exporters
- **$** Improving access to market information
- **$** R&D efforts to improve varieties of specific crops
- **$** Investments in pre-cooling and airport cold storage facilities
- **$** More efficient utilization of air freight services and development of sea freight services
- **$** Helping to forecast market opportunities (in particular importing countries) and identify products in which the exporting country's comparative advantage lies
- **$** Supporting the formation/strengthening of exporter associations, who lobby for an improved enabling environment and help members overcome scale diseconomies
- **$** An industrywide cess to support effective industry and market development
- **$** Provision of incentives to exporters by eliminating bottlenecks on imported materials such as packaging, and by offering improved agricultural extension services

Other reports called for seminars and training in postharvest handling techniques to improve product quality, as well as research on new products, such as sun-dried mangoes. The importance of developing new value-added processed products, which are not subject to the difficult and costly cold chain regime, was pointed out in several reports.

3.3 Competitive Strategies to Acquire Market Share

The literature sheds light on a number of key success criteria that must be addressed if African exporters, especially small enterprises, are to increase their share of European horticultural markets.

3.3.1 Size and Vertical Integration

An overriding conclusion of the literature review is that **scale economies** are a key factor for success in horticultural exporting. These scale economies are achieved by large-size firms that have amassed or can leverage (through borrowing or mobilizing equity investments) substantial financial resources for investments in the technologically advanced packing, processing, storage, and transport equipment. Large firms typically are able to access working capital to ensure an adequate supply of raw material that meets the volume and delivery requirements of the large buyers who are becoming dominant in European markets.

3.3.2 Establishing Trading Networks

Successful small export marketing enterprises in Africa are generally those that have developed good trading links or networks in importing countries. These relationships, founded on mutual trust established by years of successful trading, minimize transaction costs, reduce risks, and can provide access to credit and a flow of market information.

3.3.3 Contract Farming/Outgrowers

To ensure a sufficient supply of raw material for processing or exporting, contract farming is widely practiced in Africa, principally by large parastatal agroindustrial enterprises dealing in cotton, palm oil, rubber, oilseeds, tea, sugar, and tobacco. Typically, these schemes feature nuclear estates and centralized processing facilities, and some are managed by specialized international firms.

There are some 25 schemes, in six countries, which involve horticultural crops.[0] These are small in scope and t tend to be in the private sector, organized frequently by foreign or local non-African companies, which have readier access to capital than do indigenous firms. The performance of these schemes has been very uneven, as many founder on problems in enforcing contracts with growers. Some growers turn to local markets or buying agents of small independent processors or exporters offering higher prices than the contracting firm. Another common problem is the high cost of providing technical assistance and inputs to widely dispersed growers cultivating small plots. Some farmer associations or cooperatives have successfully served as channels for such assistance while also acting as assemblers of product for shipment to buyers= packing houses. However, these operations have been plagued by weak management, difficulty in obtaining credit, poor quality control, and lack of member loyalty.

3.3.4 Adding Value

Much of the literature states that adding value is in general a good thing but does not deal with the issue in any detail. More attention should be paid to adding value to traditional exports (coffee, cocoa, groundnut oil, coconuts) through further processing, packaging, and conditioning. Value can be added to fresh horticulture crops by packing in shrink-wrapped poly trays, but only large exporters are likely to be able to afford the special handling and equipment required.

3.3.5 Niche Markets

Niche markets are less difficult to serve than are large markets, and exploiting such specialized niche markets can be a way for small firms to succeed in exporting to Europe, success can be achieved, however, only if the exporter can identify products for which an African country has a comparative advantage.

3.4 USAID Information Needs and Action Agenda

In many cases USAID and other donors have promoted horticultural exports from SSA countries before conducting necessary research and analysis. Before promoting such exports, donors should:

$ Conduct comparative advantage assessments, in which production and

[0] Jaffee and Morton, 1995.

marketing costs are detailed and quantified as precisely as possible so that they can be compared with the delivered cost of particular horticultural export products in specific EU markets.

$ Analyze product and importing country market opportunities in the short and medium term. In contrast to the previous point, market opportunity analysis focuses on assessing current and anticipated market size, segmentation, niches, and seasonal requirements from the importing country's perspective**C**not merely on what an exporting country is able to produce and supply during a particular period of the year.

Much of the literature on African horticulture exports deals with constraints and barriers to entry facing SMEs, which is the area of most concern to donor agencies. Other topics of interest, which receive little coverage in the literature, are the following:

$ Constraints on large exporters and vertically integrated grower/shippers

$ Analysis of the factors that make outgrower schemes practical and economically viable, especially the experience of grower-owned or jointly owned packhouses that are linked to large grower/shipper enterprises through contractual, financial, and technical assistance.

$ Understanding the basis of competition (basis on which buyers choose among sellers) and how various suppliers compare with each other on that basis.

There are two important areas related to small- and medium-size exporting enterprises that need more attention in future studies and programs.

1. **Improve exporters' understanding of European market requirements**

$ Organize more short courses and seminars in postharvest handling of produce, phytosanitary regulations, and better manufacturing practices for processed products, similar to those put on by USDA and FDA under USAID auspices in other countries.

$ Carry out more surveys of importer requirements and attitudes.

$ Sponsor exchanges between African entrepreneurs and European importers by fully or partially covering travel costs. Use the importer surveys to lay the

groundwork for these exchanges.

2. **Meet the demands of the new breed of large European importer/wholesaler**.

$ Provide a business climate in which large, vertically integrated enterprises can flourish, as these companies have the greatest potential in the near term for increasing African exports of high-quality produce.

$ Find ways to combine the resources of smaller African enterprises to form entities with enough resources to invest in modern packing equipment, ship the large volumes many European buyers require, and justify the expenditure of development funds. Define the role, if any, for trade associations in better coordinating the exports of small shippers.

$ Assess the feasibility of establishing exporter association offices, representing single or multiple associations, in the major European countries on the model of the Brazilian association HORTIMEX. This office could provide information on exporting companies and seasonal availability of produce, act as commission or contracting agent, resolve trade disputes, and perhaps operate a cold storage and inland shipping service where small shipments could be consolidated to serve large buyers. Research and discussion are needed on the best ways to organize these offices.

4. Food and Agribusiness Development Centers

This section highlights key findings of a *Secondary Review of Agribusiness Development Centers* which reviews the literature on food and agribusiness development centers (FADCs) and various agribusiness promotion projects, as well as discussions with and comments by managers of business incubators in the United States, China, Brazil, South Africa, and elsewhere. In addition to examining the track record of business incubation programs, it summarizes findings on microenterprise, agribusiness enterprise development, appropriate technology, NTAE, and venture and seed capital programs. This section will devote special attention to business incubators and FADCs. The full report appears in Appendix C.

4.1 Key Features of Business Incubators

The term *incubator* generally refers to multitenant buildings that lease space to new business ventures and provide them with shared services, technical assistance, and access to local financial, educational, and business networks. A distinguishing feature of incubators is that they seek to create a positive entrepreneurial environment that encourages and facilitates the start-up, **survival**, and growth of new business ventures.

Another characteristic of incubator programs is that they try not to prejudge or be overly restrictive about the types of businesses that they will assist. Most incubators do, however, give preference to ventures with credible growth potential based on verifiable competitive advantages. Also, most incubators do not accept retail stores as tenants due to space, privacy, and location considerations.
Successful business incubators are usually outgrowths of regional economic development strategies. Incubator programs link their tenant firms with both formal and informal networks of local support that include business professionals, banks, private sector firms, chambers of commerce, nonprofit organizations, and colleges and universities.

Facilities housing business incubators range from new buildings designed for high-technology business start-ups to spartan work space in recycled factories, bus stations, and hospitals. Following are some key features that most incubators have in common.

- **Support high-technology, high-margin ventures**, where entry barriers are high and firms need to be highly flexible and adaptable. In contrast, FADCs support

low-technology and margin businesses in the agricultural and food sector.

- **$ Affordable work space available on flexible terms**, including month-to-month leases, which frees up cash needed for equipment and operating capital during the early stages of new ventures. Eventually, successful ventures "graduate," moving out of the incubator into purchased or leased space of their own.

- **$ Financial assistance**. As most entrepreneurs lack access to the seed equity and operating capital needed to launch their ventures and operate them until they become profitables, incubator managers often help tenant firms secure financing from government programs, conventional lenders, seed capital funds, and private investors.

- **$ Professional business assistance**. Most business incubators have full-time or part-time managers who assist tenants in the development of business plans, marketing strategies, and venture financing.

- **$ Private sector mentors**. Some incubator programs have advisory committees of business professionals, educators, and successful entrepreneurs who review the business plans of incubator tenants, provide them with advice, and monitor their progress on a periodic basis.

- **$ Shared services and facilities**, including telephone answering, word processing, and access to computers, copiers, and facsimile machines. These services are usually made available on a pay-for-use basis. Shared facilities may also include a common reception area, meeting room, and sometimes specialized equipment, which can be rented as needed by entrepreneurs.

- **$ Business management training** through workshops for incubator tenants and other local entrepreneurs. These workshops focus on practical managerial skills such as business planning, marketing, accounting, and financial management.

The business incubation concept has enormous potential as an economic development intervention because it can combine the strengths and advantages of both the private and public sectors. The private sector can contribute managers with business ideas and vision, entrepreneurship, financial investment, know-how, and market opportunities. The public sector, on the other hand, can provide infrastructure support and a policy environment favorable to the growth of small- and medium-size private enterprises. Business incubators can provide a central point of focus for local and regional

economic development programs as well as for potential investors and customers for the tenant enterprises.

4.2 Opportunities and Constraints Facing Business Incubator Start-ups in Developing Countries

Business incubators provide the following opportunities, which alleviate existing constraints:

- **$ Provide entry into business and financial networks.** In the developing countries, business incubation programs can provide "connections" to the formal business community and access to resources for entrepreneurs based upon their merit rather than whom they know or are related to.

- **$ Create a regional "critical mass" for rural development.** In rural areas, the population is spread much more thinly than in major cities. Still, rural population centers are themselves important markets, and rural enterprises can produce and sell locally in addition to shipping their products to major cities and even foreign markets. Regional business incubator programs can be established, linking incubators in smaller towns and rural population centers into a regional network of marketing, financial, and training resources.

- **$ Build upon existing entrepreneurial resources.** As governments restructure their economic policies to encourage private sector development, business incubators can help informal firms operate more openly and benefit from a positive, as opposed to a punitive, enabling environment.

- **$ Build upon existing programs for small businesses,** providing a central location and an upward route for small firms with growth potential.

- **$ Privatization is creating opportunities.** Transition to market economies in formerly socialist nations and the privatization of government-owned firms worldwide are creating problems and new business opportunities. In formerly socialist countries, business incubators can disseminate market-oriented business management skills, which may be in short supply. Where appropriate, facilities such as factories slated for shutdown can be turned into incubators, and redundant managers, technicians, and workers can be assisted in the development of new, smaller ventures. The problem-solving skills of faculty at universities, where overstaffing and underutilization are common, may also be

mobilized.

- **Manufacturing networks.** Incubators can serve as coordination points for networks of related firms serving specific markets. In such networks, many small firms coordinate their efforts through a common marketing organization, which takes orders and then allocates the work to the participating firms based upon their individual strengths and specialties.

- **Approved and permitted premises.** It can be very difficult, particularly in countries with much central control over land and resources, for entrepreneurs to find government-approved land or buildings for their new enterprises. Acquiring necessary zoning waivers, leases, business permits, and licenses can often be a time-consuming process involving large amounts of money and "red tape." Incubators can save entrepreneurs time and money in that they are pre-approved for general business and food-related commercial activities.

- **Improve worksite safety and security.** Working conditions and employee safety can be improved by moving operations out of unsafe, backyard locations with (sometimes) pirated electricity into safer, albeit more expensive, business incubator facilities.

- **One-stop shop for technical management and financial assistance,** as well as access to shared facilities and services (which are made available to entrepreneurs at lower unit cost than if procured separately by each entity on the open market).

4.3 Business Incubators and Enterprise Development Experience in Africa

South Africa. In 1985, the Johannesburg-based Small Business Development Corporation, Ltd. (SBDC) established its first incubator, called an "industrial hive," in the city of Port Elizabeth. By the end of 1994, the SBDC incubator network had grown to 45 "hive" incubators located throughout South Africa, including some of its poorest areas. The SBDC incubator hives presently contain about 2,665 separate enterprise work areas that employ more than 8,700 persons.

Most SBDC incubator hives were established by converting empty factories, warehouses, and surplus public buildings, but in some of the least developed areas of the country, where such buildings were lacking, new hives were constructed from the

ground up. Many of the incubator hives have communal workshop areas where tenants can use expensive machinery and equipment on a coin-operated, pay-as-you-go basis; thus providing them with the use of equipment that individually they could not afford to buy or lease.

In addition to affordable space, entrepreneur-tenants of the hives have access to the full range of SBDC support services, including loans and technical assistance in the areas of marketing, business management, and legal issues. Most of the incubator hives house an SBDC Business Service Center or information office through which the tenants can access the business support and advisory services that they need. Local entrepreneurs who are not tenants can also access these services.

In all cases, establishment of the incubator hives has had a positive impact on local community revitalization. Many SBDC incubator hives are located in areas where commercial developers were wary of involvement due to distressed local conditions, the absence of other private developers, rehabilitation expenses, and other perceived risks. These centers are networked electronically and linked to a central information bank in Johannesburg.

One important legal advantage of the hives is that they are exempt from a sea of red tape and government regulations that have tended in the past to stifle small business development. In addition, as with incubators elsewhere, the incubator hives give tenant entrepreneurs and their enterprises a higher profile, more credibility, and better access to markets and suppliers. The incubator hives have also proven especially valuable platforms for establishing contractor, subcontractor, and vendor relationships between tenant entrepreneurs and larger business enterprises.

Increasingly, the beneficiaries of SBDC programs are black and other non-white entrepreneurs. The Government of South Africa, which is a co-owner of the SBDC, has made the empowerment of disadvantaged small- and medium-size enterprises (SME) a high priority. An increasing percentage of loan funds is being made to microenterprises, predominantly black-owned, through the SBDC Pioneer Project Initiative. During 1994, according to the SBDC's Annual Report, 5,538 loans were approved under the Pioneer program totaling 68 million Rand (about US$23.4 million).

Tanzania Integrating Business Development Support. There are several programs in Tanzania that show promise for indigenous small and medium size enterprise (ISME) agribusiness development. The Tanzanian Venture Capital Fund (TVCF) has now had nearly two years of valuable experience screening and investing in medium and larger

scale enterprises. The Business Development Centre (BDC) in Dar es Salaam, funded by USAID and the World Bank, trains business consultants and provides entrepreneurs with practical training that directly addresses the specific operating needs of their enterprises. Recognizing the need for small business financing, USAID has wisely made credit available for graduates of the BDC through a new privately owned bank, the First Adili Bank.

It is very important to the success of new ventures that there be. linkages between programs that provide technical assistance to entrepreneurs and those providing financing. In the paragraph above are examples of one-dimensional support services. It is a very serious distraction for entrepreneurs when they must spend a lot of time away from their core business activities looking for operating capital. An example of an integrated approach that links different types of support services follows.
With Dutch and British support, a Lake Zone Development Project, centered in Tanzania's second largest city, Mwanza, is being developed on the shores of Lake Victoria. Lake Victoria's waters and shoreline are divided among three nations: Tanzania, Uganda, and Kenya, creating excellent opportunities for regional development and trade between the three countries. The proposed project would combine many elements necessary for successful enterprise development: venture capital, business services, technical assistance, training, and tax incentives and concessions from the Government of Tanzania.

Mozambique:. The Instituto Nacional de Desenvolvimento da Industria Local (IDIL) of Mozambique [National Institute of Local Industry Development] provides training and financing to entrepreneurs in micros, SMEs throughout Mozambique. IDIL's relative success in training and lending to microenterprises and SMEs has made it an attractive recipient for continued and expanded funding by its current sponsors, the Ministry of Commerce, Sweden, and the World Bank. During the past eight years, even in the midst of a civil war, IDIL was able to develop and maintain a nationwide, grassroots outreach network. A hallmark of IDIL has been its reliance on field personnel, who involved local leaders so that they feel some "ownership" of the program.

4.4 Food and Agribusiness Enterprise Development Centers: Success Stories and Lessons Learned

This section briefly examines several successful enterprise development centers which have focused on food and agribusiness.

United States. Within the United States, the best-known FADC is the **Kitchen Center**

in Spokane, Washington, a licensed commercial food production facility used by entrepreneurs on a time-sharing basis to prepare prototype products and limited production runs for test marketing and special orders. Some entrepreneurs use the center for production until their volume is sufficient to justify establishing their own licensed facilities.

The Kitchen Center's facilities include commercial ovens, ranges, freezers, mixers, and a walk-in cooler. Other shared facilities and services include reception, phone answering, mail, copy machine, facsimile machine, personal computers and software, reference library, and on-site technical assistance and business counseling. The center=s staff routinely assist clients in the areas of product development, marketing, shelf-life enhancement, and compliance with product labeling regulations.

Entrepreneurs who use the center's facilities have marketable products but lack the capital needed to establish their own commercial facilities. Government health and licensing requirements make it nearly impossible for entrepreneurs to produce commercial food products in their home kitchens, so the Kitchen Center provides an excellent way to overcome what is otherwise a serious capital barrier to entry for new food firms.

In rural Alabama, the hub-and-spoke concept has been used to develop an enterprise development center network. The Business Innovation Center (BIC) in Mobile, Alabama, offers assistance in developing networks of rural enterprise development centers in Alabama and Mississippi, using the theory of "critical mass" hubs and satellites. Each of the rural, "satellite" centers consists of a multitenant building with shared facilities and services. Each center has a building manager, but technical assistance and local business management workshops are provided on a "circuit riding" basis by experienced professionals based in Mobile. This model could be very appropriate for developing countries, where capable, qualified business managers prefer to reside in large urban areas due to better housing, schools, medical care, amenities, and employment opportunities for spouses. These managers could travel circuits of rural centers run by local building managers, who would be trained to take on more business management responsibility over time.

The key to success in rural business development is market research to identify products in demand that can be made locally and exported beyond the local market. BIC trains entrepreneurs and enterprise development center managers in market gap analysis, market niche identification, and new product development. BIC also encourages rural entrepreneurs to examine the resources and markets available in their

region, and emphasizes the value of finding products that can bring new income streams to the local economy through import substitution.

Brazil. Several business development centers in Brazil have an agribusiness and biotechnology orientation. **PADETEC, Parque de Desenvolvimento Tecnologico**, located in Fortaleza and sponsored by the Federal University of Cear<, focuses on enterprises involved in the commercialization of natural products, medicinal plants, biochemicals, foods, drugs, essential oils, and electronics. **The Technology Development Support Center**, located in Brasilia, is a technology incubator affiliated with the University of Brasilia. More than one-quarter of the tenant enterprises in the Development Support Center have an agribusiness/biotechnology emphasis, including ventures in micropropagation of seedlings for large-scale plantings of banana, pineapple, and papaya; tissue cloning of fruit and ornamental plants for large-scale production; and technical assistance and consultancy for agroforestry and environmental management.

The Brazilian experience shows the value of FADCs developing close relationships with local universities and institutes. Jointly, they can explore the development of higher value-added products produced from locally available resources. FADCs can help universities and institutes create spin-off enterprises through which the results of academic research can be commercialized, thus generating income for both the researchers and their institutions.

Cina. Agribusiness Enterprise Development in China. Most of the enterprises being developed in PRC business development or innovation centers are in the high-technology areas of new materials, electronics, informatics, biotechnology, automated materials handling, energy-related products, and environmental protection technology. Some of the new enterprises, however, fall within the definition of agribusiness. Some of the agribusiness ventures located in the Daqing High-Tech Development Zone in Northern China include crop yield enhancers, agricultural machinery, mineral water, health beverages, beverages, and fertilizer.

Recent publications (People=s Republic of China, 1995) cite agribusiness-related venture activity at a number of other business development centers as well:

$ Value-Added Agricultural Products. The Fuzhou Science and Technology Park in Fujian Province includes a venture producing "green food instant noodle of coarse food grain and vegetable." In Hubei Province, the Baoding New and High Technology Industry Development Zone has enterprises developing "new foodstuff technology."

- **$** High, Value-Added Products from Natural Sources. Within the Shenzhen Science and Technology Park near Hong Kong, there are enterprises producing "natural plant drugs" pharmaceuticals derived from medicinal plants. In coastal Qingdao, which is also a center for marine biology studies, the Qingdao High-Tech Industrial Park is developing a venture producing biochemical products from marine algae.

- **$** Agricultural Machinery. In Jiangsu Province, the Wuxi HNTIDZ has one or more ventures producing innovative agricultural machinery.

The Chinese experience with business development centers has shown the value of strong public sector support. It has also shown the importance of ensuring that a spectrum of critical management and information resources are available to qualified entrepreneurs. When the resources of market information, technology, financing, and business management assistance are available under the same roof or in the same industrial park, entrepreneurs are saved the enormous cost in time and money of searching out these resources independently. Thus, the time and money saved can be used to meet with customers, develope and train their employees, and expand their businesses.

4.5 Key Factors Contributing to the Success of Agribusiness Enterprise Development Programs, with Particular Attention to FADCs

This section summarizes key lessons learned from a broad review of the literature on enterprise development programs focused on agribusiness. It draws heavily on recent USAID-funded work on microenterprise development and an assessment of USAID's agribusiness experience.[0]

Microenterprise Development and FADCs. The most cost-effective way to promote microenterprise development in reaching large numbers of firms at relatively low cost per beneficiary has been through assistance to existing microbusinesses with growth potential. The most successful programs emphasized the development of sustainable services to entrepreneurs which were, provided by intermediary organizations. Programs that targeted special disadvantaged groups or community development were

[0] See especially *USAID=s Compendium of Evaluation Findings: Microenterprise Development* (1994) and Kumar=s *Generating Broad-Based Growth through Agribusiness Promotion: Assessment of AID's Experience* (1994).

less successful.

The major recommendations of the *Compendium* were that USAID (1) focus on enterprise expansion (as opposed to start-up) programs, (2) promote the development of microlenders into sustainable, financially viable, intermediary lenders with market-based interest rates, (3) exercise caution with respect to intensive programs, and (4) develop an effective system for tracking the performance of microenterprise activities.

Implications of the CDIE Agribusiness Assessment for FADCs. A number of factors was identified (Kumar, 1994) that influence the success of agribusiness programs. Although none of the CDIE studies examined FADCs, factors of particular relevance to FADCs are the following:

$ *Empirically based strategies.* FADCs should be established only after careful feasibility studies and be based on empirical evidence of comparative advantage and business plans that objectively assess constraints and opportunities facing firms in selected commodity subsystems.

$ *Supportive infrastructure*: FADCs should be established where the physical, institutional, and policy/legal infrastructures are supportive of private sector entrepreneurship.

$ Government commitment and financial support.: Government needs to demonstrate commitment and support in the form of a favorable policy environment, infrastructure improvements, and willingness to share the cost of the FADC program until it can become self-sufficient.

$ *Private sector input and active involvement*. Input from agribusinesses and entrepreneurs is critical at the design stage, as it ensures consideration of private sector problems, needs, and expectations. The potential for private sector input and involvement should be a key factor evaluated in FADC feasibility studies. Further, the private sector should be involved in the development of the business plan for the FADC and should be asked to make specific commitments of future technical, managerial, and financial support for the FADC.

$ *Technical advisors require private sector experience*. It is essential that the managers of FADCs be individuals who have had training and practical, positive experience in private business management. Ideally, the manager should be a national of the host country.

Other key factors that will influence the success of an FADC include the following:

$ *Market demand-driven production:* Production of value-added or non-traditional agricultural products by entrepreneurs and farmers needs to be tailored to the expressed needs and specifications of interested buyers in specific, proven markets. Such demand-driven, customer-informed production removes much of the market risk that producers have traditionally been exposed to, and it allows producers to target more lucrative domestic and export market "niches" for specialty products. Precise, relevant information about customer demand and high-potential market niches is not always readily available, however. FADCs can provide a valuable service in assisting entrepreneurs to carry out focused, cost-effective market research.

$ *Local markets and export potential*. Successful agribusiness enterprises often concentrate initially on selling to local markets where they can compete favorably against imported goods. They then use the proceeds and experience they have gained from local sales to expand into regional and international markets.

$ *Private and public sector support and "ownership".* The probability of success for an enterprise development program is much higher if it enjoys active support and participation from the private and public sectors. A program is more likely to be sustained if the local community feels a sense of ownership**C**that it is "their" program and that it is producing results that benefit the whole community.

For such a sense of ownership to exist, it is critical that local private sector and public sector opinion leaders be involved in a major way from the start in planning, organizing, and implementing the program or project. Ideally, a local business (or perhaps even government) leader, one of the "movers and shakers" of the community, will take the lead to promote and "sell" the concept to the media and to other key decision makers. Such local "champions" are in the best position to mobilize local commitments of resources in support of an FADC program.

$ *Toward local self-sufficiency.* Successful programs strive to become sustainable and self-sufficient and encourage the entrepreneurs they assist to do likewise. In addition, they employ local nationals and develop their expertise, instead of relying exclusively on expensive foreign consultants.

- **$** *Flexibility*. As markets and market opportunities are constantly changing, programs assisting small- and medium-scale agroenterprises must have the flexibility to respond to the changing needs of their clients for information, technology, technical assistance, marketing help, and financing. Projects must allow considerable flexibility and discretion on the part of grantees and subcontractors in the actual implementation of program activities.

- **$** *Long-term commitment and assistance*. Small- and medium-scale agribusiness enterprise development is best accomplished when there is continuity in the provision of technical assistance and other resources such as finance from inception until the enterprise is firmly established and self-sufficient. This process can easily take up to four years or so donors need to provide multiyear funding to FADCs to ensure sustainability.

- **$** *Local synergies with other private enterprises*. Successful projects involve and benefit other private enterprises so that success is mutually beneficial.

- **$** *Market mechanisms to maximize local support and "buy-in."* The value of using competitive market forces to leverage government resources has been clearly demonstrated by competitive block grant programs in the United States and the positive results of recent "auctions" of public radio frequencies. In developing countries, a USAID-funded contractor would invite local governments and private sector leaders to submit business plan-like proposals for FADCs in their communities. Following an objective review and evaluation of the proposals submitted, the most promising would be selected for multi-year FADC funding and implementation.

4.6 FADCs and Incubators: Advantages, Disadvantages, Applications

Different Clients and Objectives. FADCs and incubators are not the same thing and have quite different objectives. An FADC assists existing small- and medium- size agroenterprises, most likely in a rural/agricultural area, to expand through greater throughput/sales, adding value to existing products, extending the product line, and targeting new markets. Incubators are created to assist in the process of business formation, often in economically depressed urban areas or near high-technology centers (such as universities), where there are prospective entrepreneurs looking to develop and commercialize new products.

Sectoral Focus. Another major difference is that FADCs are by their very nature

focused on a particular sector**C**food and agriculture. Furthermore, FADC leadership (board of directors and managers) is likely to be far more directive in selecting particular commodity subsystems and agricultural products for promotion. FADC managers rigorously screen firms applying for FADC support, developing formal selection criteria. In contrast, incubators are far less directive, accepting applicants from different sectors who propose to develop a wide range of (largely nonagricultural) products. Incubators often have a more diffuse mandate to promote entrepreneurial development as part of a broader regional or urban development plan, though in practice incubated firms are often concentrated in high-technology fields. Agribusiness firms supported by FADCs will be typically low-technology, low-margin operations.

Finance. Ideally, FADCs need to have a finance component to function effectively. In most cases, an FADC will act as a foundation or venture capital fund, or in some way be strategically allied with a financing entity, providing equity and/or debt to existing small- and medium-size agribusinesses for expansion. A key reason for incorporating a financial component is that agribusiness enterprises are often poorly served by conventional financial institutions, particularly commercial banks and agricultural development banks, in developing countries and transitional economies. Commercial banks view loans to agricultural and agribusiness firms as too risky, given the inherent risks in agricultural production and supply variability.

Facilities. A business incubator is first and foremost a facility, typically a rehabilitated factory, that provides rental space, shared meeting rooms, telephones and fax links, and other shared facilities (storage rooms, work spaces, etc.). In contrast, an FADC is much less a facility and much more an intermediary organization that provides services to prospective agribusiness entrepreneurs, such as management, marketing, financial, technological, and other assistance. An FADC can rent space in an office building and does not need to be housed in its own facility. While an FADC could offer shared cold storage capacity or work space with agroprocessing equipment, it will most likely not invest heavily in such infrastructure. Providing shared fixed assets might make sense if an FADC has a heavy subsector focus (e.g., fresh horticulture).

Thus, an FADC is better suited than an incubator to support small- and medium-size agro-enterprise expansion. Incubators strive to stimulate entrepreneurship, indeed to create entrepreneurs, and provide them with basic skills in management, marketing and finance. FADCs provide enterprise-specific training and direct firm-level technical assistance to clients who wish to expand, diversify, or otherwise grow their agribusinesses.

Applications. Incubators are well-suited to countries where private sector development was constrained for many years by command economies or *dirigiste* governments that channeled public funds to investments in parastatals and government (state and collective) farms and processing enterprises, but which are now undergoing structural transformation and privatization. FADCs are better adapted to countries where the agricultural sector is predominant but agribusiness development has been limited, due to a series of production, marketing, financial, technological, and management constraints. In such countries the private sector has been allowed to operate relatively freely in most commodity subsystems, but existing small- and medium-size enterprises face difficulties in identifying market opportunities, attracting equity or mobilizing debt, developing strategic marketing plans to target attractive markets or market opportunities, and organizing and managing themselves in an optimal way to facilitate growth and/or diversification.

A decision by a USAID Mission to invest resources in an FADC will be based on Ayes@ responses to the following questions, except the final one:

$ Do small- and medium-size enterprises (SMEs) exist and dominate many or most agricultural commodity subsystems (or particular stages of those subsystems)?

$ Is further commercialization of the agricultural sector constrained by the limited capacity, skills, technical and financial resources, and horizons of SMEs and their managers?

$ Are there opportunities for SMEs to expand and diversify that are being constrained by poor firm organization and management, lack of access to equity and debt for expansion, inadequate or flawed market intelligence and understanding of market requirements, poor quality (low productivity) agricultural handling, storage, processing, transport, technology, and so on.

$ Can these constraints be addressed (and removed) in an integrated manner through a focused program or center whose sole mission is to support and strengthen agribusinesses and their intermediary organizations (i.e., trade associations)?

$ Is USAID committed to providing significant financial support for an FADC over at least a three-year period? Can other sources of finance be tapped, such as other donors, government, NGOs/foundations, and large private agribusiness firms, to provide 50 percent or more of the required funding?

$ Are SMEs undersupported or un-supported and not assisted by conventional

programs and financial sources? Will creating an FADC fill a key, underserved niche in government, donor, and private sector support programs?

- **$** Can other existing intermediary organizations, such as trade associations, business development centers (or foundations or incubators), or agricultural development banks be strengthened sufficiently, in a reasonably short period of time, and with modest resources to provide SMEs with better and more effectively delivered services?

If the answers to these questions, other than the final one, are Ayes,@ a USAID Mission should proceed to support and fund (up to 50 percent) the start-up and operating costs of an FADC over a three-year period.

5. Gaps in the Secondary Literature and Knowledge Base, and Implications for USAID

5.1 Agribusiness Development in LAC and Asia

R. Koskella's literature review (see Appendix A) emphasizes the need for NTAE projects to initiate crop/varietal trials and pilot shipments of harvested commodities to high-income markets as a way to build credibility and generate industry and farmer support. This strongly action-oriented approach is laudable, but it does not address how a donor agency and its contractors go about selecting specific crops and commodities for testing and promotion. Koskella does argue for the design of an ongoing analytical approach or process by which decisions to test/support particular crops are made, but he does not specify the underlying conceptual framework or specific analytical techniques for making these decisions. This analytical approach would necessarily require the following:

- **$** An **assessment of promising market opportunities** in target international and regional markets, focusing on selected commodities for which demand is expanding rapidly (and there is need for other sources of supply) or which are currently supplied by countries whose competitive edge cannot be well-defended (due to high production/marketing costs internally; high shipping costs and/or shipping difficulties to major importing countries; too high an incidence of poor quality, substandard product shipped; communications difficulties or problematic business practices).

- **$** After a short list of potential commodities has been established from the above assessment, it is necessary to detail and quantify agricultural production and marketing costs for the commodities that are currently produced in the exporting country. Major constraints or cost-enhancing, quality-diminishing factors should also be identified, and analysts should attempt to estimate potential savings from changes in those factors (constraint alleviation) or gauge in a qualitative way how quality enhancement will likely affect exports and sales in key importing countries.

- **$** For commodities that are not currently produced in the prospective exporting country, but for which agronomic potential to produce the commodity exists (based on expert judgments), analysts need to estimate probable production and marketing costs for these "new" crops, exported to key international markets.

Any decision to go ahead with promotion of new commodities needs to be based on a detailed assessment of comparative advantages (e.g., low labor costs, suitable growing conditions for targeting a particular market window, low cost of required investments) that the "new" exporter would enjoy relative to established suppliers.

The *Secondary Review of Innovative Approaches to Agribusiness Development in LAC and Asia* by Koskella also does not address the critical issue of **extra-project financing of NTAE promotion schemes.** While foreign firms/investors appear willing to extend support to producers once a viable contract farming scheme has been established, it is not clear how producers will get to the point where they can be considered a potentially reliable source of supply. Certain investments and working capital will be required to produce NTAE of reasonably high quality, on a reliable basis, and at relatively low cost. Donor-funded projects have played an important role in financing important infrastructure, such as irrigation systems in Lam Nam Oon in Northeast Thailand, and in supporting the emergence of effective trade associations. Other sources of funding were doubtless tapped to enable producers in a region to attract outside technical assistance (crop-specific extension), selected infrastructural investments (such as packing sheds, cold storage units, pre-cooling units), finance to meet working capital needs and pay for agricultural inputs, and access to foreign distribution networks. LAC and Asian countries are generally much wealthier than African countries, and savings rates are higher, which complements donor and government interventions, providing leverage often lacking in SSA.

A better understanding of existing financial markets, institutions, and practices in LAC and Asia, relative to SSA, would provide insight into the dynamic process of savings mobilization, financial intermediation, and smallholder accessing of financial resources for production improvement.

5.2 SSA Horticultural Exports to the EU

In *Sub-Saharan African Exports of Horticultural Products to the European Union: Consolidation and Synthesis of Studies*, Richard Abbott notes that EU demand for exotics, particularly tropical fruit, is surging, while the off-season market for temperate fruits and vegetables is oversupplied. Based on the literature and anecdotal reports, this appears to be the case. USAID and other donors would do well, however, to fund a **serious investigation of the depth, magnitude, and nature of demand for particular off-season fruits and vegetables.** Short of deriving commodity-by-

commodity demand functions, such an investigation would have to be **based on the expertjudgements (opinions) of major EU importers.** A comprehensive importer survey does not appear to have been done systematically in recent years.[0]

Based on a review of a 1987 German study of the EU horticultural market, Abbott also recommends systematic and focused surveys of EU importers in order to generate quantitative data and rankings of SSA exporters relative to competing suppliers, with reference to a set of "efficiency of supply" criteria. Generally, the literature on the EU horticultural market for SSA exports has placed too much emphasis on secondary volume and price data. Analysts have focused much attention on identifying market windows that can be filled by African exporters, largely on volume and price grounds. Much less attention has been paid to product quality and the business practices and overall reliability of African suppliers vis-B-vis their competitors. This bias could be corrected by funding in-depth surveys of a sample of EU importers in major importing countries on, say, an annual basis. Survey findings (i.e., importer rankings) would be of broad interest to SSA exporters in numerous exporting countries, including those where USAID has active NTAE promotion projects or project components.

Much of the literature does not address ways in which value can be added to horticultural exports from SSA, through improved postharvest handling methods, drying, processing, and packaging. The summary of experience appears to be sketchy, not focused on quantitative measures of performance, and unsatisfactory in assessing market opportunities in the EU and elsewhere. This is unfortunate in that dried and processed products face stiff competition in high-income markets from fresh produce, which has received such positive publicity, the blessing of nutritionists and medical professionals, and active merchandising efforts by purveyors of fresh produce (supermarkets, specialty stores such as Fresh Fields, and open air/community produce markets).

Greater understanding of export marketing channel management should be a focus of future USAID-funded studies, as well as an active monitoring and

[0] Note that USAID's Asia Regional Agribusiness Project (RAP) provides up-to-date overviews of international markets for selected fruits and vegetables (mainly tropical) important in world trade. Monthly bulletins are issued as *RAP Market Information Bulletins* under the title of "World Market for *Commodity X*," where X has been mangoes, passion fruit, avocados, vanilla, and fresh lychees in recent months. These bulletins are a good, concise summary of very recent supply and market developments; they are based on secondary sources and do not appear to reflect detailed input from importers.

evaluation priority for ongoing projects. Given the relatively small size of most African exporters, they are unable to manage marketing channels in the EU. Abbott does identify export organizational alternatives that give exporters a greater measure of control over export shipments and the prices they receive. Contractual arrangements that specify purchase prices, product grade and quality, shipment modes, delivery dates, and pesticide tolerances and allowable percentages of rejected produce, as well as strategic alliances based on mutual trust and support, are vastly superior to shipping produce to the EU on consignment, where the exporter bears all the risk. Such arrangements and alliances can be consummated by individual large firms in SSA, as well as trade associations. **An important future applied research contribution could come from a systematic analysis of the features, advantages/disadvantages, and benefits/costs of alternative institutional arrangements between exporters and importers.** Existing SSA projects with NTAE components and M&E systems in place should monitor and evaluate different contractual configurations and types of strategic alliances, with particular attention to how SSA exporters (and their associations, where applicable) fare.

Another issue not addressed in the literature is the role for micro and small-scale enterprises in NTAE production and marketing, particularly within African countries. As Abbott has discussed, large firms able to achieve scale economies in horticultural exporting have a competitive advantage over small scale exporting rivals. Nevertheless, there may be positive roles that micro and small-scale enterprises can play in distributing inputs to producers, collecting harvested produce, and perhaps sorting and grading of this produce in rural areas. Smaller firms can provide these services under contract to large exporter firms, particularly where production is dispersed geographically in isolated rural areas.

5.3 Agribusiness Development Centers

In a *Secondary Review of Agribusiness Development Centers*, Dan Shaffer describes small business incubators and FADCs, as well as gives specific examples of how they have worked in the United States and developing countries. The distinctions between the two are not as sharply drawn as they might be, but this paper has attempted to do this in section 4.6.

AMIS II's formulation of the FADC concept is inspired by the incubator model, which has met with considerable success many parts of the United States and in some developing countries. Experience in Eastern Europe and NIS, however, has been disappointing. While the FADC concept grew out of the worldwide incubator

experience, its precise formulation (see *AMIS II's Guidelines for Food and Agribusiness Development Centers*) is grounded in empirical observation of constraints facing SMEs in developing countries and transitional economies. **Rigorous assessment of SME constraints and lessons learned from agribusiness projects in SSA**, as demonstrated in Volumes 3 through 5, has **revealed a clear need for a one-stop agribusiness development shop** that **provides an integrated package of assistance (and training)** in the following:

- **$** Market research and intelligence gathering
- **$** Business expansion or diversification planning
- **$** Procurement of necessary finance
- **$** Selection of appropriate technology in production and marketing that meets domestic, regional or international market requirements
- **$** Production, marketing, and export management
- **$** Choice of supply and sales arrangements for minimizing risks and maximizing potential returns

Unlike to incubators, FADCs require in-house financial resources for equity/debt financing of SME expansion, diversification or targeting of new markets, or a tight link to outside sources of financing (through the FADC board of directors, a closely affiliated foundation, or a particular revolving fund established by a domestic or international donor). This financial aspects as well as an emphasis on support to established firms, are key features of FADCs, which distinguish them from incubators. The FADC concept, however, has not yet been implemented in a developing country or transitional economy context.

Neither the literature and non the forthcoming *Guidelines* (see Gordon and Shaffer, 1995) address the role of trade associations in creating and helping to finance and manage FADCs. Prima facie FADCs are not intended to be advocacy organizations that lobby government agencies and regulators for policy changes or commercial banks and agricultural development banks for changes in lending practices. In practice, trade associations should fill this role, but in countries where trade associations are weak FADC managers and directors may play an advocacy role.

The respective roles of FADCs and trade associations in providing business and technical (product specific) training to agro-entrepreneurs are also unclear. It is possible to envisage a generic business training function (in marketing and financial management) for FADCs that substitutes in large part for what trade associations might provide. Trade associations should have a comparative advantage in providing or

mobilizing product- and subsector-specific training and technical assistance. On the other hand, FADCs may be better placed to provide direct firm-level assistance to firms that can cover half or more of the costs of this assistance. Trade associations might have trouble doing this, because larger members, with greater financial resources; would be better able to cover a significant portion of TA costs than smaller. Despite some natural comparative advantages that FADCs and trade associations would appear to enjoy that should determine how their roles are differentiated, this begs the question of which agribusiness support organization or intermediary should receive funding and TA priority. This question will not be addressed here, but it could be part of the subject of a later paper on **the sequencing, coordination, and interplay of several agribusiness promotion interventions in a developing country or transitional economy, including food distribution system development and NTAE promotion programs.**

5.4 Proposed Applied Research to Support Agribusiness Development

Based on the secondary research findings and identification of gaps in USAID's knowledge base, we recommend follow-up applied research in support of agribusiness development.

1. Prior to funding crop- or commodity-specific investments, USAID generally and **NTAE projects in particular require a rigorous assessment of promising market opportunities**. Agribusiness projects need to be demand driven and responsive to market trends and niches and to the comparative capacity of competitors to fill those niches in regional and international markets. Existing or potential competitive advantage needs to be ascertained before significant donor investments are made. Implementing a trial-and-error process in testing particular crops and/or making trial shipments to determine their ultimate profitability is too expensive a method for USAID to use to promote particular export commodities, notably NTAEs.

2. As USAID and other donor investments in horticultural export projects have proliferated, how have international markets, particularly the EU, changed? How are SSA and other exporters likely to fare in the next three to five years, based on market requirement and share trends, the emergence of tough competition from other developing countries, and a perceived saturation of key markets? In answering these questions, it is necessary to examine the **depth, magnitude, and nature of demand for selected off-season fruits and vegetables**. It would be based in part on examination of trends in trade prices, market channels, volumes, and market shares by major EU importing countries. More important, the research would require in-depth,

structured interviews with major EU importers, where expert judgments would be sought. Such an exercise could be broadened to include other commodities, such as tropical products, spices, essential oils, and other NTAEs, and it could be an annual survey of key importers in the EU and the United States.

3. Improved export marketing channel management has the potential to increase the returns of SSA exporters, particularly small firms. How can this be achieved? **What organizational alternatives have worked best** among the following: trade associations; producer/exporter cooperatives; exporters working in concert with a government trade promotion organization; exporters organizing and funding an office that represents their country's product and defends their interests in high-income markets; strategic alliances between major high-income country importers and one of the following**C**large producer/exporter, a cooperative or other grouping of smaller exporters, contract farmers under the supervision of a local production manager. **Under alternative organizational arrangements, how are benefits, costs, and risks distributed among producers, exporters, and importers**? Note that some of the exporting country**B**based work will be done under a AFR/SD/PSGE/PSD-funded buy-in to AMIS II entitled *Optimal Structures and Strategies for Agribusiness Development.*

4. Both trade associations and FADCs are receiving heavy emphasis as "model" interventions under AMIS II. Useful applied research could point to the conditions under which one or the other is the preferred (or leading) intervention by a donor. This exercise could be part of a larger research activity on the **sequencing, coordination, and interplay of several agribusiness promotion interventions in a developing country or transitional economy**, including food distribution system development, NTAE promotion programs, and research-based lobbying on policy and regulatory measures. In sum, which interventions are preferable under which conditions?

5. What precisely do international agribusiness firms look for in determining **where to invest time and money in developing sourcing or sales arrangements or joint ventures?** Applied research would involve **interviewing managers of international firms to get them to prioritize key factors influencing these decisions**. Do international firms expect a significant amount of prior investment in crop production research (publicly or privately funded), crop-specific infrastructure (irrigation, pre-cooling, packing sheds), general infrastructure (roads, ports or airports, telecommunications), and crop production to a certain volume and standard? If so, what are the minimum yet necessary investment and commodity output levels? How are these factors weighed against the policy and regulatory environment and the perceived business climate? The output of such applied research would be a succinct

discussion of the key variables or criteria that influence firms' thinking and the strategic decision-making process that executives use to choose countries and production zones/schemes (e.g., contract farming).

6. Implications for USAID

This section summarizes the implications for USAID of secondary literature findings and lessons learned.

6.1 Non-Traditional Agricultural Export Promotion Projects

Based on the literature review, the following implications for improving USAID project and program design in NTAE are clear:

- Solicit private sector input early on. Private sector input and support are at least as important, if not more important, than support from government officials and agencies.

- NTAE projects need to put in place an analytical process, which begins at the design phase, to undertake market size and comparative advantage assessments of particular non-traditional agricultural products. These assessments must be market driven or based, whether the market is domestic, regional, or international or some combination.

- NTAE projects must be designed so that the project implementation team has the flexibility to make mid-course changes in focus, strategy, or implementation thrusts without requiring an elaborate evaluation and redesign process. Markets for quite a few NTAEs are thin and volatile. Apparent market opportunities can evaporate quickly when a major exporting country enters a new market or expands shipments into an existing market.

- NTAE projects require technical assistance at the production, postharvest handling and marketing levels. Doing market research and brokering export deals will have little positive impact if the quality and timing of product shipped does not meet buyer expectations and market requirements.

- USAID should continue to provide leadership among donors in supporting NTAE development. Several USAID-supported projects in LAC, Asia, and SSA have played a key catalytic role in promoting NTAEs, particularly to high-income markets such as the EU. NTAE projects can generate greater foreign exchange earnings, increase employment in production, handling, and processing of labor-intensive products, and operate a better return to land and labor than coarse

grains, legumes, and other basic foodstuffs.

6.2 Association Development

Association development was addressed in the context of NTAE promotion projects in this review. Key implications for USAID are as follows:

- Before committing significant resources to association development, USAID and other donors need to assess the institutional environment and the business A culture@ carefully. Some countries may not be suitable for association development, given poor historical performance of associations or cooperatives or no prior association experience because businessmen do not have a history of collaborating, even on matters of mutual interest.

- The potential of and role for associations need to be carefully thought out, as there is a tendency to have exaggerated expectations. Associations in most African countries function most effectively as lobbying organizations. More mature associations may be able to take on more functions that are industry- or subsector-specific. Nevertheless, in few cases will an African trade or business association be able to provide an integrated, full-service package of assistance to member firms. (This provides an opportunity for creation of an FADC, which is better able to provide firm-level TA and finance).

- In evaluating the suitability of working with and supporting an association prior to a project, key success criteria need to be established. While trade associations fall far short of the ideal in most African contexts, they should have a minimum number of active members, member financial support (minimum percentage, depending on the size and creation date of the association), leadership that listens to and is reasonably responsive to members, and a minimal infrastructure (office space, manager, support staff).

- Despite the mixed experience in working with associations, USAID should continue to support association development as an important component of agribusiness development programs. Associations can play a positive lobbying function, and their emergence is evidence of the healthy evolution of a vital form of interest group in civil society and democratic participation in and input to government. As associations mature and increase funding sources, they can also take on industry- or subsector-specific training, market intelligence gathering/dissemination, and technical assistance functions.

6.3 Horticultural Exports to the EU

Based on the literature review of SSA horticultural exports to the EU, key implications for USAID are the following:

- As EU markets for horticultural products have become hyper-competitive, USAID needs to devote greater attention to competitive strategies for countries: acquiring or defending market share, and for enhancing African exporter management over EU market channels.

- Two ways to address the above issues are to (1) continue to do applied research that focuses on competitive strategies and market channel management, and (2) conduct annual surveys of major importer/buyers of African (and other tropical and counter-seasonal) horticultural produce in the EU.

- Market channel research should focus on (1) evaluating returns, costs, and risks of different organizational or institutional arrangements between (and among) African exporters and EU buyers; (2) trends in EU market channels; and (3) the role of African government trade promotion agencies or representatives in European markets.

- USAID projects that promote horticultural exports to the EU need to limit their commodity (subsector) focus in response to market research carried out in selected European countries. Identification of emerging market opportunities for selected horticultural products in the EU needs to be complemented by an assessment of actual production of promising products in particular African countries, potential for expanded production of acceptable quality produce, and any agronomic assessment of the potential for growing new crops that have not been produced (for export) in those countries.

- Through its NTAE projects, USAID needs to enhance exporters: and prospective exporters: understanding of EU market requirements and the particular demands of emerging mega-importers/buyers who supply supermarket chains and other institutional customers.

6.4 Food and Agribusiness Development Centers

FADCs appear to be the pivotal and missing link in the support system serving

agribusinesses in African countries. They can provide an integrated package of services to agribusiness firms seeking to expand or diversify. In the literature review and the country case studies (see Volumes 3 through 5), no one project or set of donor-funded interventions served the full range of SME needs. USAID should strongly consider establishing FADCs in promising African business environments, such as those found in Ghana, Madagascar, Zimbabwe, or Tanzania.

USAID and other donors can most effectively provide financial assistance to individual firms by using FADCs as intermediaries. The track record on commercial and development banks, NGOs, and development projects is poor in serving SME financial needs. SMEs do not lend themselves to the type of financial assessment used by most financial institutions. Furthermore, SMEs require several types of assistance, provided in an integrated manner, by one agribusiness intermediary organization. Conventional lenders cannot perform this role, but FADCs can.

To optimize the prospects of FADC success, USAID needs to abide by the following principles:

SME product decisions and production technology most be dominantly driven by market requirements. Production needs to be demand driven.

FADC should initially assist nonestablished exporters should initially to sell product successfully in domestic and regional markets. SMEs need to meet the less rigorous requirements of these markets before taking on challenging international markets.

- FADCs will only succeed if donors cultivate private investor and key public agency support and ownership of the FADC. Foreign resources alone can never create a sustainable FADC; half or more of the start-up resources must come from local sources.

- FADC development requires an appropriate mix of expatriate specialists and experts in incubator/business center development, as well as local business consultants. Relying too heavily on expatriates will not lead to development of a sustainable organization.

- FADC start-up requires a minimum three-year resource commitment, as well as flexibility to respond to the changing needs of SME clients for information, technology, TA, export marketing management assistance, and financing.

7. Closing Note

This volume has summarized the lessons learned from the literature on non-SSA agribusiness projects (particularly the trade association and NTAE-related components), SSA exports of horticultural products to Europe, and selected experience worldwide in developing business incubators and FADCs. Furthermore, this volume discusses the track record of a particular innovative approach**C**FADCs, opportunities and pitfalls in applying the approach to an SSA context, and knowledge gaps and their implications for USAID Missions in SSA.

The following volumes will discuss lessons learned and implications for USAID of innovative approaches used in agribusiness projects and programs in selected countries of the three major regions of SSA:

- **$** East Africa: Kenya, Uganda
- **$** West Africa: Mali, Ghana, Senegal
- **$** Southern Africa: Tanzania, Mozambique, and Zimbabwe

To a certain extent, the literature review helped to inform the planning and organization of field investigations and write-up of the results. By the same token, the literature review has benefited greatly from simultaneous, in-depth fieldwork in eight SSA countries.

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Secondary Review of Innovative Approaches to Agribusiness Development in LAC and Asia

Appendix A

December 1995

MISSING FROM ELECTRONIC VERSION

Sub-Saharan African Exports of Horticultural Products to the European Union: Consolidation and Synthesis of Studies

Appendix B

December 1995

Not for quotation,
reproduction, or distribution

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Prepared by
Richard D. Abbott
Ousmane Adoum
Mary Mugisa

EXECUTIVE SUMMARY

The findings in this study are based on a review of fifteen documents, sponsored by USAID and other donors, selected from the literature on horticultural exports from Sub-Saharan African countries to the European Union. Our objective was to evaluate the extent to which these documents dealt with market trends in the EU for fresh and processed fruit and vegetables and flowers, the competitiveness of African exports of these products, and marketing channels within the EU. The underlying assumption of our study was that the literature on this subject did not adequately examine the dynamics of European marketing channels, the exporters= understanding of their functioning, or propose action plans to improve the performance of African exporters.

Our findings are that indeed most of the studies available to us deal mainly with appraisals of constraints to crop production and marketing within African countries, although a number of them included analyses of European market trends for particular crops, imports by source country, and seasonal price trends. Not surprisingly, it was reports which looked at importing from the European viewpoint which provided the most useful information on how importers operate and the factors which determine where they buy. One of them reported on a survey of 50 importers in Germany, the U.K., France and the Netherlands which ranked African countries on their performance on factors other than price and quality. Importers stressed the importance of good packing, regularity of supply, maintenance of low temperature during sea and air transport, good communications, and willingness to participate in the cost of advertising and sales promotion activities. Several reports made it clear how important it is for African exporters to build close trading relationships with importers based on consistently good performance. The most successful examples of these relationships cited in the literature is the trade between ethnic Asians in East Africa and their family member in the U.K. with whom they trade.

Most of the reports remarked on the now widely-recognized trend toward concentration in the food wholesaling sector of EU countries to serve the very large Amultiples@ or supermarket chains. Concentration is another way of saying that there is a trend toward fewer, large importer/wholesalers. The demands of the multiples for regular deliveries of high quality, low-priced produce is transmitted by wholesalers to suppliers, who must compete in what is for many horticultural products an already saturated market. The positive feature of this changing market, noted in several reports, is that the demand for year-round availability of fruit and vegetables offers opportunities for off-season suppliers in southern African countries.

An issue that pervades the literature is how small and medium enterprises can play a larger role in horticultural exporting. Large, well financed exporters and vertically integrated grower/shippers such as those in Kenya and Zimbabwe have proved to be the most successful at meeting increasingly stringent EU market requirements, sometimes through joint ventures with European importers. The general conclusion is that while smaller exporters can effectively serve specialized niche markets where large volumes are not required, or ethnic markets for Asian vegetables, they are not likely to become a force in the market. Overcoming this size constraint, a number of reports point out, would require smaller exporters and grower/exporters to pool resources to form larger enterprises, giving them better access to credit and donor-supported technical assistance. Larger sized enterprises are more likely to attract the interest of importers willing to bear the cost of travel to Africa to offer technical advice.

We conclude that the areas where the most significant knowledge gaps exist are: (1) improving exporters understanding of European market requirements, and (2) how to deal with the changing European import market, which features large importer/wholesalers who can choose between a number of competing supplier countries. We recommend more training of exporters in post-harvest handling, increased contact between exporters and importers through donor-funded travel between Europe and Africa, incorporation of direct contacts with importers in any new planned horticulture development projects, study of the cost and modalities of establishing exporter representative offices in importing countries (such as those which represent successful exporters in Israel, South Africa, and Brazil), and more investigation of feasible ways to associate small growers and shippers of produce with large exporting enterprises.

1. Background

In reviewing the available literature on the subject of Sub-Saharan African (SSA) exports to Europe of horticultural and other high-value crops, we found that a substantial body of knowledge already exists on this subject. The best general reference is a 1995 World Bank publication titled *Marketing Africa=s High-Value Foods: Comparative Experiences of an Emergent Private Sector.*[8]

As background to our review of the literature, we provide in this section: (1) an overview of horticultural exporting in SSA countries, its relative importance in the export performance of these countries, the major exporting countries, and the types of products exported, and (2) a summary of the constraints under which most African food exporting enterprises operate. The material draws heavily on the Jaffee report, interspersed with the author=s own experience.

1.1 Overview of Sub-Saharan African Horticulture Exports

Sub-Saharan Africa exports of high-value horticultural products over the past twenty years have substantially outperformed those of the traditional lower value commodities. Between 1976 and 1989, for example, SSA exports of fresh and processed fruit and vegetables and cut flowers increased by a factor of 2.5 ($636 million to $1.5 million), and in fact these products ranked third in value among SSA exports for this period after coffee and cocoa. In terms of world market share for all types of horticulture exports, SSA=s share declined slightly from 1973 to 1989 (4.3% to 3.6%) but in fact it increased for fresh fruit and nuts (5.4% to 6.2%) and cut flowers (1.0% to 3.0%).

Among fruit exports, bananas and pineapples have been traded for many years and are by far the most important in terms of volume. More recently Africa[9] has increased its exports of citrus, avocados, mangoes and papayas. A third, much smaller category consists of a variety of specialty fruit items such as guavas, passion fruit, and lychees. Export of fresh vegetables is a more recent development, and includes French beans, peas, eggplant, and green peppers, plus a range of so-called Aethnic@ vegetables such as okra, chillies, and yams. Processed fruit and vegetable exports consist mainly of

[8] Jaffee, Steven and John Morton. *Marketing Africa=s High-Value Foods*: *Comparative Experiences of an Emerging Private Sector*. The World Bank, 1995

[9] We occasionally use the term AAfrica@ in place of Sub-Saharan Africa or SSA in this report.

canned pineapple and pineapple juice, canned and frozen French beans, canned asparagus, and frozen peas. The most important flower exports are roses, carnations, liatris, asters, and chrysanthemums.

Horticultural exports to the EC in 1992 are disaggregated by country in Exhibit 1.1 below. The data indicate that South Africa, Cote d=Ivoire and Kenya together accounted for 82% of total exports by value in 1992, and that South African exports made up more than half of that total. Horticultural exports by SSA countries other than South Africa totaled a relatively modest $677 million. However, overall they exceeded exports of some traditional export crops such as cotton, tobacco, and tea. Looking at the figures by type of product for individual countries, it should be noted that Cote d=Ivoire=s exports are virtually all fresh pineapples, while Cameroon=s are almost entirely made up of bananas, both of which would normally be considered Atraditional@ rather A non-traditional@ exports from these areas.

Exhibit 1.1
1992 Horticultural Exports to the EC by SSA Country[10]
(CIF $millions)

Country	Fresh Fruit and Vegetables		Processed Fruit and Vegetables		Cut Flowers		Totals	
	Value	% SSA Total	Value	% SSA total	Value	% SSA Total	Value	% SSA total
South Africa	627.7	56.7	133.4	56.5	8.3	8.0	769.4	53.2
Cote d=Ivoire	226.6	20.5	1.9	0.8	1.8	1.7	230.3	15.9
Kenya	55.6	5.0	71.2	30.1	56.1	53.9	182.9	12.6
Cameroon	88.2	8.0	1.6	0.7	-	-	89.8	6.2
Zimbabwe	13.6	1.2	1.5	0.7	28.4	27.3	43.5	3.0
Swaziland	15.1	1.4	14.5	6.1	-	-	29.6	2.0
Other	79.4	7.1	11.8	5.0	9.5	9.2	100.7	7.0
Totals	1106.2	100.0	235.9	100.0	104.1	100.0	1446.2	100.0

Kenya has achieved the most diversification in horticultural exports among these

[10] Source is Eurostat Data Base. Quoted in Jaffee.

countries. Fresh vegetables consisted mainly (96%) of French beans and Asian vegetables in 1991, while the principal fresh fruits exported were pineapple, avocados, mangoes and passion fruit. Processed products consisted of canned pineapple and pineapple juice, plus some canned beans. Cut flower exports were the fastest growing category -- 1991 exports were six times those of 1975. Zimbabwe=s exports, while considerably smaller than Kenya=s, are also well diversified.

The relative success of Kenya and Zimbabwe in increasing horticultural exports is well reported in the literature, and in fact our analysis of available documents includes more from these two countries than for any other.

1.2 Constraints Affecting African Horticultural Exporters

The role of marketing enterprises in commodity systems -- enterprises which assemble, grade, pack, process, transport, and/or sell in domestic or export markets -- is a central theme of this report. These enterprises are crucial to the success of African countries in developing exports of high-value food and floriculture crops. In addition to their key function of putting farm output in the form and volume demanded by international markets, they can -- and many do -- assist growers by providing market and technical information, credit, and agricultural inputs. If, however, the marketing enterprise is to be viable over the long term, the cost of these services must be recovered in the form of benefits such as increased output, improved quality attracting better prices, and the ability to meet the importer=s delivery schedule. These benefits may, however, be captured by others, as when a producer fails to observe a contract and delivers produce to a local buyer offering a higher price.

African exporters of high-value foods, particularly small and medium-sized enterprises, face a number of constraints which affect their ability to be competitive in European markets, or act as barriers to entry to newly formed companies. These constraints are common to exporters in most developing countries but several are particularly serious in Africa.

High transaction costs: Jaffee and Morton note that high A transaction costs@ characterize the international marketing of high-value foods, including horticulture crops. For the exporter, these costs are associated with obtaining reliable information on market conditions in the importing country; determining the financial status of buyers and agents in distant foreign markets; and lack of face-to-face contact with buyers, leading to extended bargaining over prices, quality, delivery times, and resolution of disputes. The importer may also incur transaction costs associated with

dealing with suppliers at long range, their failure to meet delivery schedules, and regrading of produce on arrival. Some successful African exporters deal with this problem by establishing family-owned trading companies in the importing country.

Costly access to market and technical information: Access to this type of information on a regular and sustained basis requires investments which may be beyond the smaller enterprises. Modern telecommunications offer many advantages to the small trader, but require investments in computers, phone and fax equipment, and training of personnel in accessing and interpreting the available data in order to fully benefit from on-line market information systems.

Inadequate infrastructure: In comparison with developing countries in other parts of the world, African nations are poorly endowed with road, telecommunications, seaport facilities, and air cargo services. The poor state of rural roads serving widely-dispersed small growers in outlying areas adds substantially to the cost of assembling produce for export. Infrequent and costly air freight service to Europe is a major problem for exporters of perishable products. Insufficient cold storage facilities at airports is a constraint in a number of Sub-Saharan African countries.

Limited access to credit: The commercial banking sector is generally not well developed in Africa, and in many countries is at least partially under state ownership. The result is a rationing of credit to the private sector and -- in some countries -- the channeling of loans to inefficient state enterprises. Limited commercial credit may be available only to larger enterprises which can post collateral requirements acceptable to banks, such as urban real estate. This problem can be overcome by the operation of government credit schemes benefitting small farmers and businesses, though these are costly and generally require donor support.

Lack of interest by foreign investors: The political and economic problems which beset African countries has discouraged foreign investors who could provide the capital, technical expertise and access to markets -- preferably in the form of joint ventures with African entrepreneurs -- to improve export performance of the horticulture sector of these countries. Direct investment by Europeans in food processing and exporting ventures in Africa since independence has tended to be by firms which have been located there since the 1960s and which as a result have intimate knowledge of local markets. Furthermore, some governments impose legal and regulatory restrictions on foreign investment -- a legacy of colonialism and the previously dominant role of European-owned trading companies.

Raw material procurement problems: Assuring an adequate and timely supply of quality raw material is a serious problem facing agricultural marketing and processing enterprises throughout Africa. Only large-scale vertically integrated enterprises, such as those in Kenya and Zimbabwe, have been able to overcome this constraint. It is the primary reason for low capacity utilization of packing and processing facilities and resultant high unit costs, which often make African products uncompetitive on world markets. The causes are well known: widely dispersed small-scale producers, poor transport facilities, heavy dependence on sporadic rainfall rather than irrigation, lack of credit to purchase inputs, and poor post-harvest handling. Contract farming, discussed elsewhere in this report, has proven successful in only a few instances and usually only with large outgrowers.

Risk aversion of small African entrepreneurs: Given the environment within which they operate, it is understandable that small African entrepreneurs tend to be risk averse and unwilling to make long-term investments in fixed assets. Risk is typically minimized by diversification into a broad range of perishable and non-perishable items, with the result that they can neither achieve economies of scale through use of specialized equipment, nor acquire the expertise it takes to succeed in exporting particular horticultural products to the highly competitive European market. Jaffee points out, too, that contending with government intervention in food marketing, such as bans on trading in certain commodities and licensing of trading rights, we well as bureaucratic delays and corruption, was not good training for competing in the liberalized free-trade environment many African governments are now endeavoring to create.

2. Review of Reports on SSA Horticulture Exports to the EU

2.1 Methodology

We began by assembling all available references to reports and studies on Sub-Saharan African exports of fresh and processed horticultural exports to the EU. We looked primarily for USAID-sponsored studies but included those sponsored by other donors, including several World Bank reports. After screening of approximately 30 reports, we narrowed the list to 15 studies which we felt justified detailed review.

In accordance with the Terms of Reference, a complete copy of which appears in Appendix B, our examination of these studies compares and contrasts:

(1) the scope and methodology of the investigation,

(2) the extent to which the report examined EU market trends for horticultural products,

(3) the extent to which analysis focuses on identifying discrete market opportunities,

(4) the extent to which a country=s competitive position vis-a-vis other suppliers was analyzed,

(5) the extent to which marketing channel dynamics in the importing countries are examined,

(6) the extent to which exporters from the African country manage and extend marketing channels for their exports, and

(7) whether or not specific recommendations or action plans were formulated.

The underlying assumption of the terms of reference was that most studies pay insufficient attention to points #5 and #6 -- dealing with the dynamics of market channels in the importing country -- nor present action plans designed to deal with these issues. Our analysis therefore paid special attention to the extent to which the studies focus on competitive strategies needed to acquire market share in a foreign

country, including all the factors which contribute to the buyer=s evaluation of the particular export product and how it compares with similar products from other countries. In our concluding section we respond to the requirement to assess whether there are A significant gaps in USAID=s knowledge base regarding EU markets, horticultural marketing channel dynamics, and competitive advantage@.

It should be noted that our focus was not on the production side of the equation but on the enterprises which export horticultural products, including vertically integrated production/packing/exporting operations.

2.2 Documents Reviewed

Reviews of the fifteen documents selected appear in Appendix A to this report. To summarize, they included three reports on Kenya, three on Zimbabwe, one each on Uganda, Gambia, Mali, Guinea Bissau, and Tanzania, and four on European markets for horticultural products without reference to a specific exporting country. Eight studies were sponsored by USAID, two by the World Bank, one by the British government (ODA), one by the German government (GTZ), one by the Dutch government (CBI), one by UNCTAD, and one funded jointly by the Zimbabwe government, Japanese government and the World Bank.

Kenya and Zimbabwe, as the two most successful SSA exporters of horticultural products to Europe, naturally received the most attention. Among the countries with nascent horticultural export industries, we looked at Uganda, The Gambia, Mali, and Guinea Bissau. We located four very useful reports which dealt with the EU market for imported horticultural products in general. We included them because of their coverage of marketing channels in the EU, a subject not dealt with adequately in most of the country-specific studies.

It was apparent from the outset that the vast majority of studies on SSA exports available to us deal with identifying internal constraints to expansion of exports and recommending measures to overcome them -- subjects which are not the focus of this study. In fact, a lot is already known about such constraints and they are quite similar in all Sub-Saharan African countries. Among the more prominent are:

- **$** physical infrastructure deficiencies (road, telecommunications and, especially, air freight),

- **$** limited access to credit to finance export transactions and to adequately

equip product handling facilities,

- $ the risk of spoilage of perishable crops because of poor post-harvest handling procedures,
- $ poor quality control and packaging prior to shipment,
- $ high transaction costs (mainly difficulty in dealing at long range with importers),
- $ limited access to market information,
- $ lack of export marketing know-how,
- $ inadequate supply of quality packaging materials, and
- $ product availability below minimum quantities for international transport.

An issue which was prominent in some studies, particularly those on Kenya and Zimbabwe, was the difficulty in involving smallholders in the relatively successful export trade of large European-owned producing and exporting facilities.

2.3 Summary of Findings from the Document Review

2.3.1 Scope and Methodology of the Reports

Most of the country-specific reports focused on constraints affecting performance of the horticultural sector and the enabling environment. While these reports assessed to some degree the EU market for horticultural products (fruit, vegetables, flowers), the assessment typically was limited to such issues as the size of the import market in Europe for particular types of commodities, requirements by variety, type of packaging, seasonality of supply, current suppliers, types of buyers, tariff and regulatory issues, and in some reports, information on price trends. In most cases this information was compiled from secondary sources. Most useful were the seven studies which included interviews with importers in the main EU importing countries as they gave good insights into the dynamics of the market. Four of these seven reports looked at the market from the European viewpoint, rather than from the African exporters, and these shed the most light on how the importing process is carried out.

2.3.2 EU Market Trends

Most of the reports reviewed picked up the major trends in the EU market for horticulture products, which are by now quite well known to everyone in the industry. These include:

- **$** There is an increasing demand for fresh fruit and vegetables, as opposed to processed items, as part of the general trend toward healthier diets.

- **$** There is increasing interest in Aexotics@ or tropical fruit, such as mangoes, papayas, and avocados as consumers seek to diversify their diet with new and interesting fruit.

- **$** Because of lack of familiarity with exotics on the part of many consumers, they tend to buy on appearance rather than price, putting a premium on quality.

- **$** In contrast, buyers of Aethnic@ items, such as Asian vegetables, tend to be lower income people who buy mainly on price.

- **$** Imports of cut flowers are increasing at a faster rate than those of fruit and vegetables

- **$** There is a general oversupply of temperate climate fruits and vegetables in the off-season both from within the EU, now that Spain and Portugal are included, and from non-EU countries like Morocco and Turkey who have rapidly increased production in recent years and can very competitive due to their proximity to Europe.

A very important EU market trend with broad implications for African exporters is the increasing concentration in the wholesale food marketing sector. We discuss this subject more fully in Section 2.3.5 under the heading of EU market channel dynamics. Here we would note only that the appearance of large importer/wholesalers serving the supermarket chains, or large specialized importers selling throughout the EU from a base in one country, means much increased buying power in the hands of fewer buyers. This translates into a trend toward ever more stringent requirements on exporters to meet quality, packaging, and delivery demands if they wish to sell into the EU market.

A positive note in this picture is that smaller specialized importers will continue to look to African exporters for the more exotic items, since supermarket chains are not geared up to handle small volumes of such commodities.

2.3.3 Discrete Marketing Opportunities

Few reports we reviewed dealt with this subject in the kind of detail that would enable exporters to identify specific trade opportunities. In most cases, the information was confined to trade statistics, while in some advice was offered as to varieties, seasonal windows, competing suppliers. A few studies included interviews with importers, which shed some light on market opportunities. Given the relatively modest quantities shipped from individual Africa countries to the huge European market, and the numerous competing suppliers, it is truly a buyers= market. The competitiveness of African suppliers in this market is therefore of paramount importance. We examine this issue in the next section.

An example of a detailed examination of markets was the EU country market series done by DAI (and subcontractors) for the KEDS Project in Kenya. Information was provided on market opportunities for ten export crops of Kenya for each EU country. For example, the report on the avocado market in France included import trends for the past four years, share of import market by exporting country, variety preference, EC minimum quality requirements, and packaging requirements, concluding with a brief statement that Kenya should continue to target this market due to its current position as fifth largest supplier, and that technical assistance is required to assure high quality of shipments by sea. The entire series was a desk-top exercise without benefit of contacts with importers in Europe.

Generally speaking, the reports we reviewed which looked at market prospects from the European perspective were of greater value in identifying discrete marketing opportunities. The report by Hoerman and Will of the University of Hannover is a good example of this. While directed at EU market prospects for tropical fruit from Kenya, it offered a lot of useful detailed information on markets in six European countries (the four major EU importing countries plus Sweden and Switzerland). Taking again the market for avocados in France as an example, this section of the report not only had the usual trade statistics by supplier country, but it also had charts showing seasonal imports into France by month for each of eight supplier countries for two time periods, 1978-1979 and 1983-1984. While one could wish for more recent data, it does serve to give prospective exporters a clear idea of seasonal windows of opportunities. Information on seasonal price trends for produce from the main supplier countries was

also included.

Another distinguishing feature of the above type of report is the fact that the authors conducted extensive interviews with importers in each country, 50 importers in all, which they estimate account for at least 70% of all imports of tropical fruit in the six countries surveyed. The results of these surveys revealed a good deal about the general structure and functioning of the system and about the way individual firms operate. We return to this subject later in this report.

2.3.4 Competitiveness of Exports

Competitiveness is perhaps the single most important criteria against which to judge performance of SSA countries= horticultural exports to the EU. In our judgement, it is in this area that the most serious gaps exist in USAID=s knowledge base on the subject. On what basis do exporters compete? What factors are most important?

In the Hoerman/Will (University of Hannover) survey of European importers of fresh tropical fruit, importers were asked to rate supplying countries by a number of quite specific criteria. We found this information to be extremely significant for exporters and we felt that it would be worthwhile to review here some of the main points.

Efficiency of supply: The authors developed an Aefficiency of supply@ criteria for ranking exporters according to the evaluation of the 50 importers in six European countries they interviewed. Evaluation criteria which went into the efficiency rating, ranked in order of importance as judged by importers, are as follows:

- basis of trust between importer and exporter
- preparing, packing and labeling of the products
- exporter=s understanding of the market requirements
- sufficient supply quantities and uniform shipments
- familiarity of the exporters with the requirements of the export business (business usage, export techniques, financing procedures, etc.)
- observance of delivery dates, and
- settlement of complaints.

Quality and price were evaluated separately because, as the authors say, they would have dominated the other criteria too much given their overriding importance. (We would agree with this approach. European importers with whom we have talked always mention quality and price first, then go on to discuss other matters.)

Based on the surveys, the report compiles evaluations of twenty-one countries (eighteen developing countries plus the U.S., Israel and South Africa) according to the two sets of criteria described above, giving them scores ranging from 1.0 for Aexemplary@ to 4.0 for Aunsatisfactory@. Among developing countries, Brazil ranked highest for the efficiency criteria with a rating of just above satisfactory (1.9), followed by Ivory Coast, Morocco, Mexico, Peru, Senegal, Kenya, Jamaica, and Colombia. African countries with lower ratings include Mali, Cameroon, and Burkina Faso with values close to the mean between satisfactory and less satisfactory. Ethiopia received the lowest rating among African countries. Kenya was ranked high on Abasis of trust@ but low on Asufficient supply quantities and uniform shipments.@ Israel had the highest efficiency rating of all countries rated, followed by South Africa and the U.S., (then Brazil).

Quality: For most countries, importers scored quality at about the same level as the efficiency criteria, indicating how closely these are related in their minds. A more instructive comparison was gained by looking at individual produce items. For example, the quality of air-shipped pineapples from the Ivory Coast, Kenya and South Africa rated above satisfactory, while those from Cameroon and Ghana averaged less than satisfactory. Mangoes from Peru were ranked the highest at 1.6, with Kenya at 2.6 (between satisfactory and less satisfactory). Senegal had the lowest rating of all African countries.

With respect to Kenya, the survey went further and asked importers who ranked Kenyan produce low what was the basis of their evaluation. Most of them did not like the varieties because of wrong color (green, yellow), short shelf life, wrong degree of ripeness or varying degrees of ripeness in the same box, and spots or bruises which importers felt was caused by lack of care in harvesting, sorting, and packing as well as unstable boxes which do not protect the fruit adequately during transport.

Exchange of information: Kenya was evaluated by importers on this issue in comparison with the Ivory Coast, Morocco, Israel, and South Africa. Criteria included (1) how well suppliers inform importers about expected production levels, (2) whether important information was withheld or passed on, (3) how well suppliers understood the

development of production in their country, (4) understanding of quality requirements, (5) how well importers were informed about quantities exporters could deliver, (6) informing the importer in advance when agreed delivery dates cannot be observed, (7) ability of the importer to contact the exporter on short notice, and (8) language barriers. Kenya scored below the others on how well they informed importers on expected production and on knowledge about development of production, inadequate quality standards, informing buyers about quantities available, and informing buyers when delivery dates cannot be met.

Participation in importers= advertising and sales promotion: Importers were asked whether exporters from non-European countries had participated in advertising or sales promotion activities of their company for tropical fruit, either financially or in another way during the past two years. The response was that the most active countries in this regard were Israel, South Africa, and Brazil. For Israel and South Africa, this is done through official marketing boards, and for Brazil through an export promotion organization for horticultural exports (Hortimexa). These organizations contributed funds for joint advertising and sales promotion efforts and by providing products free of charge for point-of-sale tasting by consumers. They also provided printed material such as posters, leaflets, and recipes for sales promotions.

Packing of fresh produce: Tropical fruit like avocados, mangoes, and papayas are rarely repacked in consumer-size shrink-wrapped trays but are usually displayed in the shippers= box. This puts a premium on shipping in a box which is not only attractive but is strong enough to have protected the quality of the fruit during transport.

Sea transport: Avocados and mangoes are the principal items shipped mainly be sea. Experience was satisfactory with shipments of avocados from Israel and South Africa, but less so with other countries. Problems had to do with wrong degree of ripeness or different degrees of ripeness in the same box, insufficient transport technology, wrong operation of refrigerated containers, incomplete cooling chain, or delayed arrival of ships.

2.3.5 EU Market Channel Dynamics

Recent changes in marketing channel dynamics in Europe are reported in several of the studies reviewed. We refer to the shortening of the market chain in the segment serving the large supermarket chains or Amultiples.@ The enormous buying power of these chains -- they control 40 to 70% of retail marketing in some EU countries -- has led to the development of large importer/wholesalers who can provide the range,

diversity, reliability, and year-round deliveries of produce required. These well-financed firms typically invest in the storage, ripening, quality control and re-packing facilities needed to serve these large buyers. The creation of a ASingle Market@ in the EU is also leading to the appearance of large importing enterprises which sell (or A re-export@) throughout the EU. This is particularly true of the Netherlands.

Concurrent with the increasing importance of the large importer/wholesalers is the declining role of wholesale markets. The same trend has been underway in the U.S. with terminal markets. Several reports offer useful charts depicting these market channels, as for example the system for imported exotic fruit in the U.K. in Report #13.

The produce auctions in the Netherlands are a special case; Report #12, prepared for the Dutch government agency CBI, provides information on this system.

It is difficult for African exporters to meet the requirements of these large dealers. Most African exporters sell to smaller importers specializing in particular items or in particular countries, often on a consignment basis. In the opinion of the trade, these specialized dealers in Aexotics@ will continue to have a role as a source for items in lower demand such as mangoes and papayas, as well as specialty items like guavas, passion fruit, and tamarillos, since large wholesalers prefer not to deal in low-volume produce. African exporters are most successful when they establish long-term marketing links with importers, often in some type of joint venture. This is typical of some Kenyan exporters of Asian descent who have trading companies in Europe operated by members of the same family. This illustrates the point made earlier about the importance of good communications between buyer and seller.

Trade in processed or semi-processed horticultural products such as frozen beans, mango puree, and canned pineapple is considerably easier since perishability is not an issue. However, many of the same strictures about the importance of quality, packaging, price and the establishment of good trading relationships apply.

Report #13 on the UK market for fresh fruit discusses the important role that exporters representative organizations can play, as in the case of AGREXCO for Israel, HORTIMEXA for Brazil and a similar organization representing South Africa. While AGREXCO is a parastatal organization, private associations can play the same role, which the above-referenced report refers to as A promoting confidence by providing information on supplies, qualities prices, or timing of deliveries and answer queries and discussing grievances with customers@.

2.3.6 Exporters Management of Market Channels

The studies we reviewed made it quite clear that few African exporters have any degree of control over marketing of their exports and cannot be truly said to Amanage@ market channels in Europe. Horticultural marketing in the EU is a highly competitive business. Several of the studies indicated that European importers of off-season fruit and vegetables, ethnic crops such as Asian vegetables, Aexotic@ fruit such as mangoes, avocados, and papayas, and flowers have a wide range of suppliers to choose from in Africa, Asia and Latin America. With the exception of a few specialty items, it is a A buyers market.@

A World Bank study of successful export experience with high-value commodities in developing countries[11] notes three types of institutional arrangements linking exporters with foreign buyers:

- **$** simple market coordination - open market sales, spot market sales, sales on consignment
- **$** contract coordination - seasonal or annual contracts for delivery
- **$** ownership integration - long-term contracts with trading partners, sometimes involving joint ownership of marketing facilities or sharing of marketing costs.
- **$** government coordination, which may involve simply an overseas promotional office, but sometimes also direct government participation in negotiations.

Most African produce exports fall into the first category. Shipments are on a consignment basis without any guarantees. Many importers operate on a commission basis, earning 5 to 8% of the sale price, and remitting the balance to the exporter after deducting handling costs such as inland transport. Importers readily reject sub-standard shipments and may turn to alternative suppliers after several bad experiences.

[11] Jaffee, Steven and Peter Gordon. *Exporting High-Value Food Commodities: Success Stories from Developing Countries.* World Bank Discussion Paper 198. 1993

Long-term contract arrangements on an annual or seasonal basis (the second category), are possible but only based on successful trading relationships built up over time. Reports on Kenya and Uganda (Reports #1 and #7) note that some ethnic Asian exporters in Kenya and Uganda are linked by family ties to importers in the U.K. and have long-established successful trading business. The report on the U.K. market for tropical fruit makes the point that once a good trading relationship is established, and assuming that the exporter is a large enough supplier to warrant it, importers may be willing to travel to the exporter=s country and offer technical advice on how best to meet current market requirements.

We have seen that because of the increasing concentration or shortening of market channels described in the preceding section, together with ever-higher quality standards, the successful exporter must meet stringent requirements as to volume and regularity of delivery, proper grading and packing, and refrigerated transport. Under these conditions, how can African exporters influence, if not manage, marketing of their products in Europe in order to increase market share?

Few of the studies reviewed dealt adequately with this subject. The reports which viewed horticultural marketing from the European importers= perspective -- summarized in the preceding section -- did the best job of explaining how exporters should deal with the system. To optimize management or control of marketing of the exporters= goods in the importing country, the reports suggest the importance of the following:

- **$** a large well-equipped packing facility with cold storage and refrigerated transport,
- **$** availability of substantial financial resources,
- **$** good management with an understanding of technical and market requirements,
- **$** reliability -- meeting delivery schedules with consistent high quality product,
- **$** good communications with the importer and quick response to changing needs,

- **$** flexibility to work closely with the importer on special requirements, such as pre-packing of produce items in shrink-wrapped trays for direct shipment to supermarkets, and

- **$** willingness to share the cost (with retailer or wholesaler) in promotional programs in the importing country.

Size of the operation and the resources available to the exporter are of the utmost importance if the firm is to deal in the quantities required and sort, grade and pack the product to meet market requirements. To assure reliability of supplies, a number of studies suggest that the operator control a majority of the needed raw materials rather than rely too heavily on out-growers. A report on The Gambia (Report #8) proposes two alternatives for a planned new horticulture exporting enterprise: (1) develop a fully integrated facility including farm and packhouse with cold storage, preferably with equity participation from a European partner, or (2) become a large outgrower to one of the two existing exporting companies, which would not require an investment in a packhouse. For an integrated operation, estimates of cost and returns showed that a 100 ha farm and an investment of US $1.9 million (including cold storage, cold transport equipment and other materials) would be required to reach profitability.

Morocco provides some examples of how joint ventures with European firms can work. One such venture with a French firm features jointly owned production facilities in Morocco, while in another the Moroccan producer has a long-term market agreement with a French cooperative grower/shipper to supply tomatoes during the winter season.

The development and maintenance of long-term relationships with importers was seen by the authors of many reports as critically important, given the lack of bargaining power of most African exporters. One report noted that to be successful at this, exporters must become Agood suppliers@ -- trading partners who consistently meet the requirements noted above. The report on Tanzania (Report #11) refers to the necessity of offering importers a complete A service package,@ which means meeting precise requirements as to quality, uniformity, maintenance of temperature control throughout the cold chain, large volume shipments, adherence to precise delivery schedules, good packaging and in many cases pre-packaging of products, and documented pesticide control procedures. The ability to offer this kind of service is obviously facilitated by the development a relationship of trust in dealing with products whose qualities are often difficult to define precisely and tend to be subjective in nature, which are perishable and do not permit extended negotiation of sales terms, and for which market requirements can change rapidly.

Can a small African-owned horticulture exporting enterprise survive and prosper in this environment? The reports seem to indicate that to succeed an enterprise has to be big, well financed, and well managed, preferably with close links to European importers (or producer associations which also import). Smaller companies can, however, survive by serving niche or ethnic markets, but only if they develop close working relationships with specialized importers based on mutual trust -- which appears to work mainly when it involves members of the same family. The other way for small enterprises to survive is to pool resources and form larger groupings which would, for example, operate a modern packing house and handle enough volume to command good air freight rates to Europe. We return to this subject later in the report.

We have not yet discussed the fourth institutional arrangement referred to above from the World Bank report -- government coordination. The role of exporters= representatives in the importing country can boost trade by providing information on product availability and helping resolve trade disputes. As we have noted, European trade with Israel, Brazil and South Africa have been greatly facilitated in this way. We return to this subject later in the report.

2.3.7 Formulation of Action Plans

Virtually every country-specific report we reviewed finished by listing recommendations to overcome internal problems or constraints to the development of the horticultural sector. While in most cases it would be an exaggeration to call these Aaction plans@, they generally do a good job of indicating the kinds of actions governments and private sector participants should be taking.

The need for a comprehensive approach to improving the performance of African horticulture exporters was recognized in the Harris report for the KEDS Project in Kenya. It called for a series of activities which included exploring new export market opportunities, not only in Europe, providing direct firm-level TA to processors and exporters as necessary, improving their access to market information, R&D efforts to improve varieties of specific crops, investments in pre-cooling and airport cold storage facilities, more efficient utilization of air freight services and development of sea freight services, and provision of incentives to exporters by eliminating bottlenecks on imported materials such as packaging, and increased agricultural extension services. Clearly, this would be a costly program, but it does deal with many of the issues which have prevented African exporters from being competitive in European markets.

Other reports called for seminars and training in post-harvest handling techniques to

improve product quality, and research on new products, such as sun-dried mangoes. The importance of developing new value-added processed products, which are not subject to the difficult and costly cold chain regime, was pointed out in several reports. Increased production of canned or frozen mango puree in competition with India was suggested in one report.

Increasing small enterprise participation in export horticulture was dealt with in the reports on Kenya and Zimbabwe, where this is a major issue. Many of the measures proposed in the report for KEDS in Kenya mentioned above would be directed especially at small producers and small shippers.

None of the reports offered specific recommendations on how to improve exporters management of EU market channels.

3. Conclusion

Based on the findings from our review of the fifteen documents in the preceding section, what conclusions can be drawn as to the scope and coverage in these reports of key issues in horticultural product exporting to the European Union? What gaps may exist in the knowledge base available to USAID, especially those relating to competitive strategies to acquire market share in foreign countries, and what further research would help fill in these gaps?

3.1 Conclusions Regarding Coverage of the Reports

Scope of the studies: Most of the USAID-sponsored studies we reviewed were country-specific and naturally focused on internal constraints affecting the horticultural industry of that country. It was apparent, however, that the literature does contain information on some of the key factors chosen for examination in this report, such as African exporters= understanding and control of EU market channel dynamics. The best of these were studies prepared by German, Dutch and British firms which looked at these markets from a European perspective and explained how they function.

Competitive strategies: The scope of work asks to what extent the studies dealt with A competitive strategies to acquire market share in a foreign country.@ None of the country-specific reports went into much detail about what factors lead to competitiveness, other than to note the more obvious ones of quality and price. In our section on competitiveness (Section 2.3.4), we note that the report by the University of

Hannover on the European market for tropical fruit was quite specific about other factors that go into creating successful trading relationships -- factors such as developing a relationship based on mutual trust, which in turn is founded not only on consistent performance in terms of uniform and consistent good product quality, proper packaging, and meeting delivery schedules, but also on less tangible aspects such as good communications, rapid and equitable settlement of complaints, the exporter=s understanding of European market requirements and his knowledge of good business practices in export trading.

Role of small enterprises: This emphasis on size raises the question of the chances for success of small African exporting enterprises. Our study of the literature, and personal experience, suggests that these small enterprises cannot survive in today=s EU market environment -- unless they are selling into highly specialized or niche markets, or are closely linked through jointly owned and closely linked importing companies in Europe. These narrow markets do exist, but their development will not have a major impact of the economies of the countries concerned. This means that horticultural exporters must find ways to combine their resources to form larger enterprises, preferably linked through joint investments or long-term marketing agreements with European importers.

The Holtzman draft paper[12] foresees a minimal role for micro, small, and medium enterprises in non-traditional agricultural exports but suggests that they might be able to play the role of service supplier to exporters. Holtzman also notes that in some countries contract farming schemes for smallholders are being abandoned in favor of estate production, supplemented by production from a few, large outgrowers.

Training and trade missions: How does the African exporter acquire this knowledge and understanding which is so important to his or her success? Several reports stressed the importance of training exporters, the grower/shippers who work with them, and producers themselves, in proper post-harvest handling techniques. This can be done by USAID-sponsored seminars and short-courses (put on by USDA and FDA personnel), such as those organized by DAI=s Morocco Agribusiness Promotion Project. Exchanges of visits between exporters and importers has proven to be an excellent way to improve understanding, but this rarely takes place unless the volume of trade between them is enough to justify the cost of Europe-Africa travel. Donor-funded missions which include direct contact between trading partners are a good use of aid

[12] Holtzman, John. *Emerging Issues in Non-Traditional Agricultural Export Development.* (Working Draft Paper). The AMIS Project. Abt Associates. September 1995

funds.

Forming alliances with trade associations in importing countries has proved fruitful in several AID programs, as in Morocco. In this case, a U.S. trade association organized seminars and trade missions involving Moroccan business persons.

Comprehensive approach: One lesson from the various studies we reviewed was the importance of a comprehensive approach. The case study on Chile noted that the groundwork for its successful horticulture export business was laid in the 1930s and involved heavy government investments in infrastructure and access to credit on favorable terms. Kenya=s success in produce exporting was the result of very large government expenditures over many years.

3.2 Dealing with It: Competitive Strategies to Acquire Market Share

The documents we reviewed shed light on a number of key issues which must be addressed if African exporters, especially the smaller enterprises, are to increase their share
of European horticultural markets.

Size and vertical integration: An overriding conclusion of our review is that large size of the enterprise is a key factor for success in horticultural exporting. Large size must be accompanied by substantial financial resources for investments in the technologically advanced packing, processing, storage and transport equipment, and for assuring an adequate supply of raw material, in order to be able to meet requirements of the large buyers who are becoming dominant factors in European markets. Vertical integration of production, post-harvest handling and processing, and exporting operations has proven to be the most successful approach, as practiced chiefly by European-owned farming and exporting companies in the East African countries of Kenya and Zimbabwe. In a few cases, large multi-national agribusiness firms have formed joint ventures with large land-owners, or negotiated with local governments to acquire the necessary growing areas. The Del Monte pineapple operation in Kenya is an example of the latter approach.

Establishing trading networks: Successful small exporting marketing enterprises in

Africa have tended to be those which have developed good trading links or networks in importing countries as a way to minimize costs and reduce risks. These relationships, founded on mutual trust established by years of successful trading, minimize transaction costs, reduce risks, and can provide access to credit and a flow of market information . The literature shows that the most successful of these were established by ethnic Asians in East Africa with family members residing in the U.K. The perils of trying to operate on a Ahit or miss@ basis are well illustrated by a statement in the Jaffee World Bank report: AIn contrast, a large number of firms which have been dependent upon arms-length, short-term marketing arrangements have been highly vulnerable to changes in market demand and to opportunistic behavior on the part of overseas market importers. The life expectancy of firms who have conducted trade on a spot market basis has been extremely short, frequently less than one season.@ The larger European-owned exporters succeed by creating internal trading networks through joint ownership or contractual ties with associated companies in Europe

Contract farming/outgrowers: Contract farming as a means of assuring raw material supply for processing or exporting is widely practiced in Africa, principally by large parastatal agro-industrial enterprises dealing in cotton, palm oil, rubber, oilseeds, tea, sugar and tobacco. Typically, these schemes feature nuclear estates and centralized processing facilities, and some are managed by specialized international firms. There are some 25 schemes in six countries which involve horticultural crops[13]. These are smaller in scope and most tend to be in the private sector, frequently foreign or local non-African companies which have readier access to capital than do indigenous firms. The performance of these schemes has been very uneven, many foundering on problems in enforcing contracts with growers -- who may turn to local markets or buying agents of small independent processors or exporters offering higher prices. Another common problem is the high cost of providing technical assistance and inputs to widely dispersed growers each with small plots. Some farmer associations or cooperatives have successfully served as channels for such assistance while also acting as assemblers of product for shipment to buyers= packing houses. However, these operations have been plagued by weak management, difficulty in obtaining credit, poor quality control, and lack of member loyalty.

Adding value: Most of the reports reviewed stated that adding value was in general a good thing, but did not deal with the issue in any detail. The report by Mooney (Report #15) was the only one that dealt exclusively with a processed product (mangoes), while noting that the European market for this product was extremely competitive. Kenya=s

[13] Jaffee, page 95

successful export of frozen French green beans was noted in a report on Kenya (Report #3), which also discussed the well established Del Monte canned pineapple enterprise in that country. The Holtzman paper suggests that much more attention should be paid to adding value to traditional exports (coffee, cocoa, groundnut oil, coconuts) through further processing, packaging, and conditioning. Value can be added to fresh horticulture crops by packing in shrink-wrapped poly trays, but only large exporters are likely to be able to afford the special handling and equipment required. A combined fresh and frozen operation such as certain Kenya companies operate, and was for a time successful in Cameroon, is an example of an integrated approach which offers flexibility in handling by being able to process and store beans which are either in excess supply at certain times of the year. Other opportunities may exist, but it is clear that adding value is going to be the province of larger firms.

Niche markets: It is to state the obvious to note that exploiting specialized niche markets can be a way for smaller firms to succeed in exporting to Europe. If products can be identified for which an African country has a comparative advantage, then such enterprises should be promoted and supported.

3.3 Things We Need to Know More About or Do Better

Much of the literature on African horticulture exports deals with constraints and barriers to entry facing small and medium enterprises, which is natural since this is the area of most concern to donor agencies. Given the vast number of small producers and huge land areas involved, growth of this sector can have an important impact on the economies of Sub-Saharan African countries. The main thrust of our analysis has therefore been on how these smaller firms can expand their participation in the expanding horticulture export sector of these countries.

Few studies we saw dealt with constraints on large exporters and vertically integrated grower/shippers, such as those in some East African countries, other than to note that an improved Aenabling environment,@ fewer restrictions on trade, and improved air freight would benefit them. While there is little in our report on these exporters, they are undeniably important to African economies because the successful ones provide a model of what it takes to be successful in this business. Under the right conditions, these large operations can form the nucleus of an outgrower scheme involving progressive small farmers with access to good land, such as several in Zimbabwe reported in the literature. Many such schemes have foundered on the difficulty of collecting small amounts of produce from small, widely dispersed farms. Further study of the factors which make outgrower schemes practical would be useful, especially the

experience of grower-owned or jointly owned packhouses which are linked to large grower/shipper enterprises through contractual, financial and technical assistance activities.

If exports by the smaller African exporters are to increase, government support programs and donor activities need to focus more on performance of this sector. African exports must be able to compete in an increasingly demanding market which, for many products, is already saturated. Our review of the literature has surfaced two important areas related to small and medium exporting enterprises which we believe need more attention in future studies and programs:

Improving exporters understanding of European market requirements:

- **$** Organize more short courses and seminars in post-harvest handling of produce and better manufacturing practices for processed products, similar to those put on by USDA and FDA under USAID auspices in other countries.

- **$** Carry out more surveys of importer requirements and attitudes. This report has stressed the importance to African exporters of establishing good trading relationships with buyers in Europe by consistently meeting market requirements. Only one of the reports we reviewed (by the University of Hannover) went into the subject in any detail, but the survey of how European importers rate the performance of Kenyan exporters of tropical fruit illustrates the kind of helpful information which can be obtained.

- **$** Sponsor exchanges between African entrepreneurs and European importers by fully or partially covering travel costs. The payoff in increased understanding of each other=s situation can be great. Use the surveys mentioned above to lay the groundwork for these exchanges.

Meet the demands of the new breed of large European importer/wholesaler:

- **$** Provide a business climate in which large, vertically integrated enterprises can flourish, as these companies have the greatest potential in the near term for increasing African exports of high quality produce. Larger volume shipments are essential to attract lower air freight rates, one of the biggest constraints on the competitiveness of African exports.

- **$** Find ways to combine the resources of smaller enterprises to form entities with enough resources to invest in modern packing equipment, ship the large volumes many European buyers require -- and justify the expenditure of development funds. Cooperatives have been successful in a few cases where they are well managed and well financed. A more fruitful approach is to associate small enterprises with larger successful exporters through joint ventures. Experience in Zimbabwe, however, has shown that this approach can be successful only under certain conditions so careful planning is required.

- **$** Draw up plans for establishing exporter association representative offices in the major European countries on the model of the Brazilian HORTIMEX. (Lessons could also be learned from the performance of the Israeli AGREXCO organization, though we would not recommend establishing a parastatal as this one is). Substantial donor support would be required initially to do this. Functions of this office can range from simply providing information on exporting companies and seasonal availability of produce, to acting as commission or contracting agent, resolving trade disputes, and even operating a cold storage and inland shipping service where small shipments can be consolidated to serve large buyers. A high degree of cooperation among exporters is required to make this work, so it can serve as a catalyst for formation of associations of exporters. Research is needed on the best modalities to organize these offices.

APPENDIX A

INDIVIDUAL DOCUMENT REVIEWS

NOT INCLUDED IN ELECTRONIC VERSION

APPENDIX B

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Secondary Review of Agribusiness Development Centers

Appendix C

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Dan Shaffer

1.0 Executive Summary

While at present there are few, if any projects in developing nations specifically labeled "food and agribusiness development centers" or "agribusiness incubators", it is clear that there is a moderate amount of internationally-sponsored activity involved in the development and expansion of small and medium size agribusiness enterprises. Some programs focus specifically on agribusiness enterprise development. Others, while not industry-specific, include agribusiness enterprises among their clients.

Lessons Learned

The more successful projects have some or most of the following features or characteristics:

1. *Market-Driven Production*: Through contracts and other linkages with exporters and wholesalers, entrepreneurs and farmers produce value-added and non-traditional agricultural products tailored to the needs and specifications of specific, proven markets.

2. *Local Markets and Export Potential*: Value-added products are sold successfully in local markets (often as import substitutes) with the potential to export to regional and foreign markets as well.

3. *Local Self-Sufficiency*: Projects initiated with donor matching funds find ways to become increasingly self-sufficient in terms of financing and technical assistance. Further, they encourage the entrepreneurs they assist to do likewise.

4. *Advisors with Relevant Private Sector Experience*: Persons serving as advisors or providers of technical assistance should have relevant experience in private sector business management and marketing.

5. *Flexibility*: Markets and market opportunities are constantly changing, and programs assisting SMAE's must have the flexibility to respond to the changing needs of their clients for information, technology, technical assistance, marketing help, and financing.

6. *Long-Term Commitment and Assistance*: A universal reality of business

development is that it usually takes 3 to 5 years to successfully "grow" a business. This is particularly true for agribusinesses which are tied to crop growth cycles and market "windows of opportunity". Multi-year commitments of resources from international funding agencies are needed so resources in the field can "be there" when growing enterprises need them.

Implications

From the review conducted for this report, we find three implications for future, USAID-sponsored Small and Medium Size Agribusiness Development projects:

First, the foregoing features should, to the maximum feasible extent, be incorporated into the design and implementation of USAID-sponsored Agribusiness Development projects.

Second, we believe that a cost-effective intervention to facilitate agribusiness development having these desired characteristics is the establishment of regional Food and Agribusiness Development Centers (FADC) offering a full range of support services and networking to entrepreneurs. These services typically include technical, managerial, and marketing assistance; as well as debt and equity financing.

Third, we strongly recommend that USAID-supported Food and Agribusiness Development Centers (FADC's) only be established where there is demonstrated local interest and leadership from the private and public sectors, as well as local commitments of material resources and participation.

Using market forces to leverage government resources has been shown to be effective elsewhere. Examples include competitive federal block grant programs in the United States and the positive results of recent "auctions" of public radio frequencies.

Similar competitive mechanisms could be used in the establishment of USAID-supported FADC's. Initially, the competition might be between host governments in a particular region such as southern and eastern Africa. Seven countries within a region, might, for example, be invited to submit proposals with the understanding that only two new FADC proposals will be funded per year. Proposals would be rated and ranked according to appropriate criteria, giving substantial weight to commitments of matching public and private sector resources in the proposals submitted by host governments.

Alternatively, USAID-funded contractors could, in cooperation with host governments,

hold national conferences presenting both the FADC concept and the availability of matching funds on a competitive basis to establish a limited number of FADC's.

Local governments and private sector leaders would be invited attend the conference and to submit proposals and business plans to establish FADC's in their states, provinces, or communities. Following an objective evaluation and ranking of the proposals submitted, the most promising would be selected for multi-year FADC funding and implementation.

2.0 Background of this Study

With economic development and the growth of disposable income, consumers in developing nation tend to consume better quality and value-added foodstuffs, thus creating new market opportunities for local agribusiness producers and food processors. In particular, there are significant opportunities for specialty food products that can substitute for current imports and be exported as well to markets in other nations. As Woolverton (1985) has noted,

> "Agribusiness is an important part of nearly every country's economy. As countries develop, the input supply industries and commodity processing, food manufacturing, and distribution firms tend to evolve and grow while the production sector shrinks in the number of people employed."

In a recent evaluation of USAID-funded agribusiness programs, Kumar (1994) employed a working definition of "agribusiness" which reflecting congressionally-mandated policy and program guidelines, de-emphasized traditional production agriculture. Kumar's definition, which we are adopting for the purpose of this study, encompasses the following:

- All businesses involved in the production and distribution of equipment and inputs used in agricultural production,

- All businesses involved in the processing and marketing of agricultural products,

- Farmers who are actively involved in the post-harvest handling and marketing of their products, as well as farmers who supply processors and marketers with specialized products and non-traditional export crops on an "out-grower" or contract basis.

A variety of approaches to agribusiness development have been employed internationally with varying degrees of success. This report attempts to describe and give a sense of that variety. It also attempts to present and summarize lessons learned from current and past agribusiness related projects that have implications for USAID's future efforts to stimulate agribusiness development.

Increasingly, attention has being paid to the development potential for small to medium-sized agribusinesses that add value to basic agricultural products through further processing, niche marketing, and the production of non-traditional agricultural products

for export and domestic markets. This potential is particularly strong in developing countries that have large agricultural sectors and comparative advantages that provide potential to become important exporters of value-added agricultural products.

This document, prepared under the auspices of USAID Agribusiness and Marketing Improvement Strategies Project II (AMIS-II), is a review of small and medium enterprise development efforts with a sharp focus on agribusiness. It has been prepared largely from secondary sources, with some informal field investigation, and attempts to summarize experience to date in the developing world with projects and programs designed to promote and assist the development of small and medium-sized agribusiness enterprises (SMAE) producing value-added food and agricultural products, including non-traditional agricultural exports (NTAE).

Of particular interest are programs or projects integrating financial, managerial and technical assistance. Such projects and programs may be variously referred to as food and agribusiness development centers (FADC's), enterprise development programs, business incubators, business development centers, or microbusiness centers.

A food and agribusiness development center (FADC) is somewhat similar to a business incubator in that it may also lease space to qualified entrepreneurs, giving them access to shared facilities and to specialized processing equipment on a pay-for-use basis. The FADC thus becomes both a center and a showcase for entrepreneurship, acting as a magnet for entrepreneurial and investor interest. It also becomes a very convenient location for providing practical business training tailored to the needs of specific enterprises.

This review, in conjunction with recent field research in southern and eastern Africa, also draws upon recent evaluations of western agribusiness enterprise and microenterprise projects which have been completed under the auspices of USAID and other international assistance organizations.

We have sought to identify those characteristics or factors which appear to have contributed most significantly to the success or lack of success of existing and completed SME agribusiness development programs.

Recommendations will then be made to the USAID Africa Bureau based upon this research and analysis which summarize lessons learned, minimal conditions required for success, and other implications for designing and implementing food and agribusiness development centers (FADC's) in Sub-Saharan Africa.

Approach

In preparing this initial compilation of agribusiness development experience, Arizona State University (ASU) has gathered data from a variety of published and unpublished sources. Published data in this field, have been identified through queries to experts as well as through computerized literature searches. References to successful programs have also been generated through interviews with program personnel, donor organizations, and e-mail communications via the Internet with FADC's and related programs in the field, as well as exchanges of information on BatorLink, an international bulletin board for business incubation programs.

The initial research for this review made a special effort to gather information on existing programs operating within Africa in order to provide background information and field contacts for Abt Associates and ASU personnel conducting field visits in Mozambique, Tanzania, and Zimbabwe during the month of June, 1995.

Discussion

While the task of identifying optimum business and policy environments for FADC's is fairly straight-forward, the reality is that in most developing countries, including those on the African continent, such optimum conditions do not now exist. The question then becomes one of identifying minimally necessary conditions for success, defined as the possibility for both significant new agribusiness generation and self-sustaining revenue production by the FADC. This may require transposing lessons learned from more pro-business nations in Southeast Asia to the far more challenging political and economic environments of less developed nations.

The identification of optimum and minimally necessary conditions for FADC's will guide AMIS II in field evaluations of SSA nations to determine where limited USAID resources might be applied to greatest advantage with the highest likelihood of success.

Of critical importance is the extent to which FADC's can stimulate economic development by working closely with new business start-ups and with established firms seeking to expand into new markets and/or product lines.

Research findings from the GEMINI Project, USAID Global Bureau's microenterprise promotion project, indicate that microenterprise start-ups in Sub-Saharan Africa increase during bad times and actually decrease during periods of GDP growth.(Liedholm and Mead) This is not an isolated phenomenon, as the same occurs in developed economies during economic downturns when laid-off employees opt to start their own businesses rather than pursue scarce jobs. Once established, small and medium sized firms then tend to expand and prosper as economies improve, creating significant job opportunities and incomes for owners, managers and employees.

During good times, the GEMINI project found, micro-enterprises have often stagnated due to an inability to tap financing and other resources needed to expand their operations and "graduate" from micro-enterprise status to that of profitable small firms. It is envisioned that FADC's can provide the necessary support network and technical assistance to facilitate this transition for promising microenterprises with the desire and potential for growth.

3.0 Approaches to Agribusiness Enterprise Development

3.1 Who Is Involved in Agricultural Enterprise Development

There are hundreds, perhaps thousands of non-governmental organizations involved worldwide in the development of micro, small, and medium size business enterprises. Their efforts are funded by various combinations of private contributions, client fees, government grants and contracts, and international funding from the United Nations, the World Bank and foreign government agencies such as USAID and its counterparts in Canada, France, the United Kingdom, and Asia.

In addition, there are government-administered programs and public-private partnerships such as South Africa's Small Business Development Corporation that are actively involved in assisting and promoting micro, small, and medium size enterprise development.

The Small Enterprise Education and Promotion (SEEP) Network, based in New York City, publishes a directory of non-profit organizations based in North America that are involved in enterprise development. The third edition of the SEEP Directory, published in 1994 (Sandler and Edgcomb), lists 35 non-profit organizations involved in small enterprise development (SED). Of these member organizations, 28 provided SEEP with information on their SED activities that revealed the following:

- SED activities were reported in 95 countries, providing assistance to 3.3 million individuals.
- Approximately $615 million (US) in loans were made available to 2.3 million entrepreneurs in the developing world with an average loan value of $268 per client.
- Eleven of the 28 organizations reported that SED activities account for 75 to 100 percent of their expenditures. Another 5 reported SED activities represented 20 to 74 percent of their budgets while the remaining 12 reported that the SED portion of their budgets was less than 20 percent.
- About 51 percent of the clients served were assisted in establishing micro-enterprises, 32 percent with microenterprise expansion, and 17 percent with small to medium scale business development.
- Activities were most concentrated in the nations of Honduras and Kenya (14 organizations each), Bolivia and Guatemala (13 each), Philippines

(12), Costa Rica, Dominican Republic and Thailand (10), and Columbia, Indonesia and Mali (9 each).

3.2 Agribusiness Enterprise Development

A relatively small number of non-governmental organizations have actually focused on the development of small and medium-size agribusiness enterprises. Most on-going agribusiness enterprise development sponsored by USAID has taken place in the context of the development of non-traditional agricultural exports (NTAE).

As Kumar points out, agribusiness programs supported by the U.S. Agency for International Development have followed four intervention strategies (1994, p1):

a. Developing and strengthening public and private sector institutions to support the growth and functioning of agribusinesses. Supported institutions included:

   I. Government regulatory ministries and agencies,

   ii. Semi-governmental export and investment boards,

   iii. Private sector organizations such as trade associations, cooperatives, and financial intermediaries.

b. Providing assistance to current and potential entrepreneurs in agro-processing and marketing.

c. Facilitating market development for agriculture-based products (particularly "non-traditional agricultural exports" (NTAE)).

d. Privatization of parastatals and public sector organizations in agricultural marketing and distribution.

Note: USAID's Restructuring Agribusiness and Agriculture in the Private Sector (RAAPS) Program involved promoting and facilitating joint ventures and marketing agreements between U.S. agribusinesses and agribusinesses in the emerging market economies of central and eastern Europe and the former Soviet Union.

Agribusiness enterprise development activities have taken place in the context of approaches (a.iii), (b), and (c). Most assistance to agribusiness enterprises has been provided through intermediary non-governmental organizations (NGO's) such as trade

associations and not-for-profit organizations. In El Salvador, for example, USAID agribusiness development assistance has been channeled through FUSADES, a Salvadorean agribusiness trade association, and two private voluntary organizations (PVO's): Technoserve and the Cooperative League of the U.S.A. (CLUSA).

Other PVO's and NGO's involved internationally in small and medium size agribusiness enterprise development include Appropriate Technology International (ATI), Africare, Volunteers in Technical Assistance (VITA) and the UK-based NGO, Intermediate Technology Development.

In addition to the types of programs cited above, small and medium scale enterprises have undoubtedly benefited by other US Government-supported programs. These include other USAID-funded programs which support private enterprise development; Congressionally chartered venture capital funds such as the Polish-American, Hungarian-American, Albanian-American, and Bulgarian-American Enterprise Funds; and numerous programs funded through the U.S. Department of Agriculture. Examples of USDA-supported agribusiness assistance include the Farmer-to-Farmer Program and a variety of programs such as the Cochran and Global Fellowships that provide short term training to agribusiness leaders in the United States or in their home countries.

4.0 Overview of Existing Programs

This section reviews a selection of on-going or completed projects and programs designed to promote the development of small and medium- sized enterprises, including food and agribusiness enterprises. The projects described are meant to be representative and illustrative rather than exhaustive. There may be other projects which might have been selected as even better examples but which did not come to our attention during this review.

4.1 Micro-enterprise Programs

USAID has been supporting micro-enterprise development programs since 1978 when the PISCES Program was launched. Ashe (1985) reports that USAID, in its justification for the funding of PISCES, noted that from 30 to 90 percent [depending on the country] of the urban labor force in developing countries was involved in informal sector activities and that in many countries that percentage was increasing rapidly.(vii) Informal sector entrepreneurs were found to be among the poorest urban dwellers with an, "...almost universal lack of access to credit at reasonable rates, lack of management skills, a hostile policy environment, and exploitative relations with middlemen and suppliers." (Ibid)

Most international programs with a microbusiness emphasis have involved the provision of small loans to these low income entrepreneurs. Small loans, typically on the order of US$100 to $400, are often made to individuals as members of small "solidarity groups" which hold one another responsible for repayment (group lending). The loans are used to enable the entrepreneurs to start or expand very small businesses.

Some micro-loan/micro-enterprise programs also provide loan recipients with technical assistance and training in business management skills.

There are three different approaches being taken to microenterprise development: enterprise formation (lowest level), enterprise expansion (improving performance of existing micro-enterprises) and enterprise transformation (helping growing micro-enterprises make the transition to healthy and profitable small businesses).

4.2 Agribusiness Enterprise Development Programs

USAID and other donors have funded a number of agribusiness sector development programs world-wide. The majority of these programs have had one or both of the following priorities: (1) Improving the institutional infrastructure for private agribusiness development through support for industry and trade associations and assistance to national governments in policy analysis and reform, and (2) Facilitating agribusiness joint ventures, investments, supplier-vendor relationships, marketing agreements, and export sales with/by U.S. agribusinesses.

Examples of the latter category include the ANEPP Program in Uganda, TIP in Ghana, and KEDS Program in Kenya; all of which provide significant direct support to enterprises, usually for non-traditional agricultural exports (NTAE).

Morocco Agribusiness Promotion Project (MAPP): An example of such agribusiness programs in North Africa is the Morocco Agribusiness Promotion Project (MAPP), administered for USAID by Development Alternatives, Inc., which has three stated purposes:

- Increasing the capacity of Moroccan private agribusiness to produce and market a range of demand-driven, value-added commodities.

- Increasing Moroccan exports through upgrading export capacity, product diversification, and assistance in new product development.

- Promoting Moroccan imports of US agricultural inputs, equipment and technology.

Agribusiness subsectors targeted for assistance include: off-season fresh vegetables, fresh fruit, processed fruits and vegetables, spices and oils, olives, food legumes, cut flowers, grapes, raisins, and wines.

Assistance provided to agribusiness firms in the pursuit of these purposes takes the following forms:

- Training of inspectors and plant personnel in appropriate manufacturing procedures to improve food safety and quality control in processed foods.

- Introductions of U.S. and Moroccan agribusinesses to one another where there appear to be mutually beneficial opportunities for sourcing, joint ventures, etc.

- Introduction of US-developed seed and plant stock as well as technology for reducing post-harvest losses.

- Development Cost Sharing: Moroccan and U.S. companies, trade associations, producer groups, etc. can apply for matching funding to reduce the risks of developing new products, new markets, technologies and services. Awards from the MAPP Promotion Investment Fund (PIF) are similar to seed capital grants in that the money can be used to cover up to 50 percent of exploratory or developmental costs that would not normally be eligible for bank financing. Small awards of up to $25,000 are granted for projects which are expected to demonstrate positive impacts within one year. Larger awards of up to $100,000 can be made toward the costs of longer term projects expected to demonstrate payoff in 3 to 4 years.

Implications for FADC Development: The MAPP program includes a number of features which should be part of food and agribusiness development centers generally:

- Assistance in developing new and improved products.

- Assistance in meeting the phyto-sanitary and quality standards of premium export markets.

- Access to seed capital.

- Assistance in sourcing needed inputs and in finding foreign customers.

- Training in food quality management, testing procedures, and good manufacturing practices.

4.3 Appropriate/Intermediate Technology Programs

Appropriate or intermediate technology programs focus almost exclusively on microenterprise development and seek to achieve significant increases in income and efficiency for low income producers through the use of affordable technological innovations that can be manufactured locally.
Many of the innovations being disseminated by NGO's such as Appropriate Technology International do, in fact, also contribute to the development of agribusiness enterprises in the form of local manufacturers, distributors, and sales agents for innovative technologies such as low cost treadle pumps, manual ram presses for extracting palm oil, and fuel-efficient wood-burning stoves.

4.4 Non-Traditional Agricultural Export Programs (NTAE)

As mentioned earlier, much of the positive impact of USAID projects on small and medium size agribusinesses has taken place in the context of programs designed to encourage the production and marketing of non-traditional agricultural exports (NTAE). NTAE's have been a particularly high priority of USAID missions in Latin American and Caribbean nations.

Examples of traditional agricultural exports from Latin American and Caribbean nations are sugar, bananas, coffee, and cacao. These are all products which have experienced large price fluctuations on the world market and which, in general, have declined in value relative to the cost of manufactured imports during much of this century.

By contrast, many non-traditional agricultural exports (NTAE's) have been able to at least partially overcome this long term decline in the terms of trade. Examples of such higher value or value-added exports include cut flowers, melons, sesame, okra, spices, marigold petals, pineapple, and organically-grown coffee. Careful market analysis is still a necessity, however, because NTAE's are not immune from the market forces of supply and demand. Over supply can still lead to declining prices.

4.5 Venture and Seed Capital Programs

Venture capital funds typically invest a minimum of $100,000 to $300,000 in established, going enterprises that have in place competent management teams, and which have achieved some level of production and sales. For their equity investments, venture capitalists typically seek a controlling interest (more than 50 percent of the ownership) in a venture.

The U.S. Congress has established a number of venture capital investment funds to help finance new private enterprises in some formerly socialist nations including Poland, Hungary, and Bulgaria (the Polish-American, Hungarian-American and Bulgarian-American Enterprise Funds). A new enterprise fund for Southern and Eastern Africa was recently established.

Founded in October of 1993, the Tanzanian Venture Capital Fund (TVCF) is investing in medium and larger scale enterprises. Through December of 1994, following barely one year of operation, the TVCF had invested in 13 private companies headed by indigenous entrepreneurs, of which 3 are agribusinesses: a rice and fruit farm, a tea blending and packing company, and a horticultural venture growing roses for export to Europe. TVCF investments averaged US$255,657 for the 13 enterprises, ranging from a high of US$575,000 for a 33% interest in an airline to a low of US$54,000 for a 50% interest in a firm producing printed promotional items and T-shirts.

Venture capital funds, however, are seldom available to meet the start-up or expansion capital needs of small and medium-sized enterprises. Almost universally, entrepreneurs experience difficulty in finding or qualifying for this early-stage "seed" capital. As a result, personal savings and loans from relatives are the most common sources of seed capital.

In some areas, governments and the private sector have responded to this need for early-stage financing by forming "seed capital" funds--investment pools of venture capital designed to provide the smaller investments needed by new business enterprises in their risky, early stages of development.

In return for funding, new ventures give up equity to the seed funds or agree to pay the seed capital funds a percentage of sales revenue until a certain multiple of the original investment has been repaid.

Trickle Up Program: At the micro end of venture capital financing, the Trickle Up Program has helped more than 250,000 low income entrepreneurs start or expand 42,587 businesses in 108 countries from its establishment in 1979 through the end of 1994. Trickle Up focuses on the very poor, particularly in countries recovering from political and economic crises.

Local volunteer coordinators identify families or groups of 3 or more people who wish to start a business they have planned. These entrepreneurs are given a conditional grant of the local equivalent of US$100 in seed capital in two $50 installments to start their business. The first $50 is given to the group after it has completed a business plan and has agreed to invest 1,000 hours of work ("sweat equity") over a 3 month period and to reinvest 20 percent of their profits in their business. After completing a "business report" showing that the grant conditions have been met, the family or group receives the second $50.

Trickle Up is active in 26 African countries, working through 123 locally-based agencies. The greatest recent Trickle Up activity in Africa during 1994 was in Uganda, Liberia, Kenya, Sierra Leone, Madagascar and Ghana. (1994 Annual Report)

4.6 Technology/Business/Enterprise Incubation Programs

Small business incubation programs, sometimes called technology incubators or technology centers, represent an increasingly popular approach to economic

development. Such programs assist local entrepreneurs and nurture "home grown" businesses enterprise that create local jobs and income.

The incubator concept has gained increasing popularity in industrialized nations. Business incubators of various types have also been established in South Africa, Brazil, Eastern Europe, and China. At present, business incubators are being established with foreign assistance in many major cities of Eastern Europe and the former Soviet Union.

The term "incubator" generally refers to multi-tenant buildings which lease space to new business ventures and provide them with shared services and technical assistance as well as access to local financial, educational and business networks. A distinguishing feature of incubators is that they seek to create a positive entrepreneurial environment that encourages and facilitates the start up, survival, and growth of new business ventures.

Another characteristic of incubator programs is that they try not to prejudge or be overly restrictive as to the nature of ventures which they will assist. Most incubators do, however, give preference to ventures with credible growth potential based on verifiable competitive advantages. Also, most incubators do not accept retail stores as tenants due to space, privacy and locational considerations.
Successful business incubators are usually outgrowths of regional economic development strategies. Incubator programs link their tenant firms with both formal and informal networks of local support that include business professionals, banks, private sector firms, chambers of commerce, non-profit organizations, colleges and universities.

Key Features Common to Most Business Incubators

Facilities housing business incubators range from new buildings designed for high technology business start-ups to spartan work space in recycled factories, bus stations, and hospitals. The following are some key features that most incubators have in common.

a. *Affordable Work Space Available on Flexible Terms*: Incubators allow new firms to rent only the space they need on flexible terms such as month-to-month leases. This frees up cash needed for equipment and operating capital during the early stages of new ventures. Eventually, successful ventures may "graduate", moving out of the incubator into purchased or leased space of their own.

b. *Financial Assistance*: Most entrepreneurs lack access to the seed capital

and operating capital needed to launch their ventures and operate them until they reach profitability. Incubator managers often help tenant firms secure financing from government programs, conventional lenders, seed capital funds and private investors.

c. *Professional Business Assistance*: Management errors are a major cause of new business failures, and many entrepreneurs starting new businesses lack business management training and experience. Most business incubators have a full-time or part-time managers who assist tenants in the development of business plans, marketing strategies, venture financing, etc..

d. *Private Sector Mentors*: Some incubator programs have advisory committees of business professionals, educators and successful entrepreneurs who review the business plans of incubator tenants and monitor their progress on a periodic basis.

e. *Shared Services and Facilities*: In addition to a full or part-time manager, most incubators give tenant enterprises access to shared facilities and equipment. Typical office services often include telephone answering, word processing, and access to a computers, copiers and other facsimile machines. These services are usually made available on a pay-for-use basis.

Shared facilities may also include rest rooms, a common reception area, meeting room and lunch room. A few incubators include specialized equipment which can be rented as needed by entrepreneurs.

e. *Business Management Training*: Many business incubation programs offer management training workshops for incubator tenants and other local entrepreneurs. These workshops, sometimes taught by faculty at nearby colleges, technical schools or universities, focus on practical managerial skills such as business planning, marketing, accounting, and financial management.

Rationale for Establishing Business Incubators

Business incubators and seed capital funds developed in North America and Europe in response to three factors:

- The high failure rate typical of new business ventures.

- The limited success of economic development strategies based solely on attracting corporate relocations and expansions.

- The difficulty experienced by entrepreneurs in finding early stage venture (or "seed") capital for the formation and expansion of new business ventures.

Business incubators and seed capital funds are established and supported by the public and private sectors because they stimulate new business formation, increase success rates and contribute to overall economic growth.

The following goals are most often cited by sponsors participating in the establishment of business incubators and seed capital funds.

a. *Economic development*: Incubators and seed capital funds are sponsored by local and state governments as part of regional programs to stimulate economic growth, create jobs, increase the tax base and diversify the local economy. These incubators are often established in response to the severe loss of jobs in declining, traditional industries.

b. *Technology Commercialization*: Many early incubators were established to transfer and commercialize new technologies being developed on university campuses. These "technology innovation centers" are often partly owned or sponsored by universities, and the incubator facility itself was often located on or near the university campus.

c. *Profit and Positive Cash Flow*: Investors in privately-owned incubators sometimes make an equity investment in their tenants, hoping to profit from rents and service fees in the short run and from royalties, loan repayment or sale of equity in the long run. In the case of not-for-profit incubators, their founders seek to quickly achieve positive cash flow which reduces the need for external and internal subsidies.

d. *Job and Wealth Creation*: Economic development-driven incubators and seed capital funds generally place more emphasis on job creation, economic diversification and the incubation of innovative firms with the potential to export goods and services outside of the local region.

Sponsors of technology-driven and profit-oriented incubators, on the other hand,

usually emphasize wealth creation and look for incubator tenants with proprietary technology and high growth potential.

Incubator Potential and Experience in Developing Nations

The business incubation concept has enormous potential as an economic development intervention because it can marry the strengths and advantages of both the private and public sectors.

The private sector can contribute entrepreneurs with business ideas and vision, entrepreneurship, financial investment, know-how, and market opportunities. The public sector, on the other hand, can provide infrastructure support and a policy environment favorable to the growth of small and medium size private enterprises.

Business incubators can provide a central point of focus for local and regional economic development programs as well as for potential investors and customers for the tenant enterprises. The incubator can become a "home" for the community of interests involved with new venture development.

In terms of international trade, incubators can serve as "launch pads" for joint ventures with U.S. firms. Specialized incubators with multi-lingual employees can also serve as temporary, in-country offices for U.S. firms entering developing nation markets.

The following is a summary of opportunities and constraints with respect to business incubators and seed capital funds in LDC's.

Opportunities

a. *Build Upon Existing Entrepreneurial Resources*: In many less developed countries with established market economies, there is already a great deal of entrepreneurship in the form of "micro-enterprises" and small to medium size businesses, often in the "informal" or "gray" sector of the economy. This generally means that they are not legally incorporated or licensed, do not make reports to the government and often do not pay taxes. As governments restructure their economic policies to encourage private sector development, business incubators can help informal firms come out of the shadows and operate legally.

b. *Improve Worksite Safety and Security*: Working conditions and employee safety can be improved by moving operations out of unsafe, backyard locations with (sometimes) pirated electricity into safer business incubator facilities. Toxic wastes and hazardous substances could also become less of a threat to residential areas.

c. *Provide Entry Into Business and Financial Networks*: In the less developed world, business incubation programs can provide "connections" to the business community and access to resources for entrepreneurs based upon their merit rather than whom they know or are related to.

d. *Build Upon Existing Programs for Small Businesses*: As in the United States, many developing countries already have some programs designed to assist small businesses and micro-enterprises. These programs often involve business management training and small loan programs. Incubators can build upon and strengthen these existing programs by providing a central location and an upward route for small firms with growth potential.

e. *Create a Regional "Critical Mass" for Rural Development*: In rural areas, the population is spread much more thinly than in major cities. Still, rural population centers are themselves important markets, and rural enterprises can produce and sell locally in addition to exporting their products to major cities and foreign markets.

Regional business incubator programs can be established linking incubators in smaller towns and rural population centers into a regional network of marketing, financial and training resources.

f. *Privatization Is Creating Opportunities*: Transition to market economies in formerly socialist nations and the privatization of government-owned firms occurring throughout the globe is creating both problems and new business opportunities.

In formerly socialist nations, business incubators can disseminate market-oriented business management skills which may be in short supply. In some instances, facilities such as factories and laboratories which are slated for shutdown or large labor force reductions can become incubators, assisting

redundant managers, technicians and workers to develop new, private ventures. In Sofia, Bulgaria, for example, the advanced computing institute which once produced supercomputers and IBM mainframe clones now rents out its space to new private computing and software ventures, most of which are staffed and owned by its former employees.

In Jesenice, Slovenia, the Jesenice Iron and Steel Works (JISW) began sponsoring a business incubation program in 1989 to generate jobs for some of the 2,000 employees--one third of its workforce--who would be laid off due to restructuring. The new incubator, Incubator Jesenice (INJES), was organized as an independent limited liability company in which JISW was the lead investor. (Prokopenko and Pavlin)

g. *Manufacturing Networks*: Incubators can serve as coordination points for networks of related firms serving specific markets. The best known manufacturing networks are those created by small textile firms in Northern Italy. In such networks, many small firms coordinate their efforts through a common marketing organization which takes orders and then allocates the work to the participating firms based upon their individual strengths and specialties.

h. *Approved and Permitted Premises*: It can be very difficult, particularly in nations with much central control over land and resources, for entrepreneurs to find government-approved land or buildings for their new enterprises. Acquiring necessary zoning waivers, leases, business permits, licenses, etc. can often be a time-consuming process involving large amounts of money and "red tape". Such delays can be fatal, causing entrepreneurs to lose the opportunity to enter into lucrative niche markets.

In such nations, FADC's represent a particularly valuable resource in that they have been "pre-approved" for general business and food-related commercial activities. On approval by the FADC, entrepreneurs can move into FADC premises and begin their activities immediately.(Shaffer, 1993)

Business Incubators and Enterprise Development in Africa

a. *South Africa*: South Africa is the home of one of the world's largest small business incubator networks. In 1985, the Johannesburg-based Small Business Development Corporation, Ltd. (SBDC) established its first

incubator, called an "industrial hive", in the city of Port Elizabeth. By the end of 1994, the SBDC incubator network had grown to 45 "hive" incubators located throughout South Africa, including some of its poorest areas.

The SBDC incubator-hives presently contain about 2,665 separate enterprise work-areas that employ more than 8,700 persons. Their combined leasable area is 222,858 square meters (about 2,446,090 square feet).

The largest SBDC incubator-hives established to date are Pennyville Hive on the outskirts of Soweto, the Arcadia Hive in East London, and the City Hive in central Johannesburg. Each of these hives has 200 leasable units. Another facility, the Silverton Hive near Pretoria, has 130 leasable units.

Most of the SBDC incubator-hives were established by converting empty factories, warehouses and surplus public buildings. In some of the least developed areas of the country where such buildings were lacking, new hives have been constructed from the ground up.

Many of the incubator-hives have communal workshop areas where tenants can utilize expensive machinery and equipment on a coin-operated, pay-as-you-go basis. In this manner, they can access and use equipment which individually they could not afford to buy or lease.

In addition to affordable space, entrepreneur-tenants of the "hives" have access to the full range of SBDC support services, including loans and technical assistance in the areas of marketing, business management, and legal issues.

Most of the incubator-hives house a SBDC Business Service Center or information office through which they can access the business support and advisory services that they need. Local entrepreneurs who are not tenants within the "hive" can also access these services.

In all cases, establishment of the incubator-hives has had a positive impact on local community revitalization. Like the Fulton-Carroll Center and some other incubators in the United States, many SBDC incubator-hives are located in areas where commercial developers were wary of involvement due to distressed local conditions, the absence of other private developers, rehabilitation expenses, and other perceived risks.

One important legal advantage of the "hives" is that they are exempt from a sea of red tape and government regulations that have tended in the past to stifle small business development.

In addition, as with incubators elsewhere, the incubator-hives give tenant-entrepreneurs and their enterprises a higher profile, more credibility, and better access to markets and suppliers.

The incubator-hives have also proven to be especially valuable platforms for establishing contractor-subcontractor and vendor relationships between tenant entrepreneurs and larger business enterprises.

Part of a Larger Picture

In many ways, the Small Business Development Corporation of South Africa has created a world-class model for public-private cooperation in business incubation. From the beginning, it has been private sector led and committed to building small and medium sized enterprises based on sound business principles.

The SBDC was established by South African industrialist, Dr. Antoine E. Rupert in 1979 as a way of sharing his success by reinvesting in the nation's future through a not-for-profit small business development and financing organization.

During 1981, SBDC, Ltd. was reorganized as a joint venture between the business sector of South Africa and the South African Government. The government now owns 50 percent of SBDC and is represented by 25 percent of the voting members of the Board of Directors. The other 50 percent of the equity of SBDC is held by 130 private corporations whose representatives occupy 75 percent of the seats on the Board of Directors.

Job creation is a major objective of the SBDC, and it is credited with facilitating the creation of approximately 380,500 job opportunities since its establishment in 1979.

The SBDC offers a full range of small enterprise assistance that includes business financing, technical assistance, training, and public education in entrepreneurship through television programs and special events.

The entry points for entrepreneurs seeking assistance from the SBDC are its 71 Business Service Centers located throughout South Africa. These centers are

networked electronically and linked to a central information bank in Johannesburg. Together, the 71 BSC's received over 289,000 inquiries during 1994--an average of 1,200 per work day.

The industrial incubator-hives are themselves part of the larger SBDC Affordable Business Premises program that includes both commercial/retail incubators and "pioneer projects" targeted to assist micro-entrepreneurs.

Commercial Premises consist of facilities designed or remodeled to provide office, commercial and retail space for small businesses. These facilities range from individual stores and shopping centers to office blocks, hotels and gasoline stations in underdeveloped areas.

Pioneer Projects are primarily designed to assist entrepreneurs in the informal sector. The main focus of pioneer projects has been on developing community markets by assisting in the establishment of market stalls, hawker carts, and the conversion of shipping containers and old buses into trading premises and workshop areas. One such project is Fare Park Market, a joint venture between the SBDC and the Durban City Council.

Fare Park is South Africa's first full-time "flea market" and a center for the sale of arts and crafts. It consists of 15 wooden cabins, each divided into 4 stores or stalls, for a total of 60 fully-leased retail units.

By the end of 1994, the SBDC had established, under its Affordable Business Premises program, a 699,600 square meters of leasable incubator space (about 7,680,000 square feet), mainly in developing areas of South Africa. These SBDC business (incubator) premises were in turn being rented by more than 4,300 entrepreneurs employing over 25,000 persons. Average occupancy rate for the year was 90.8 percent.

Increasingly, the beneficiaries of SBDC programs are black and other non-white entrepreneurs. From its inception through March, 1994, the SBDC had made only about 55 percent of its business loans to non-white entrepreneurs. The Government of South Africa, which is a co-owner of the SBDC, has now made the empowerment of disadvantaged small and medium sized enterprises (SME) a much higher priority. During the quarter ending June, 1994, for example, the percentage of loans made to non-white entrepreneurs increased to approximately 70 percent.

An increasing percentage of these loan funds is being made to micro-enterprises, predominantly black-owned, through the SBDC Pioneer Project Initiative. During 1994, according to the SBDC's Annual Report, 5,538 loans were approved under the Pioneer program totaling 68 million Rand (about US$23.4 million).

The SBDC is a founding member of the Task Group for the Restructuring of the SME Development Institutional Environment whose primary objectives include enhancing the empowerment of disadvantaged businesses. The SBDC strongly supports the objectives of the national Reconstruction and Development Program (RDP), "...to promote the economic growth potential of South Africa and enable all South Africans to share equitably in the benefits of that growth".

At this writing, in mid-1995, the future mission and organization of the SBDC is under review. The South African Government has declared an interest in taking over certain functions of the SBDC through the creation of a new government agency along the lines of the Small Business Administration in the United States.

Implication for FADC's: The Small Business Development Corporation has a number of elements that should be incorporated into FADC's--particularly its holistic approach that addresses the simultaneous needs of new entrepreneurs for work space, technical assistance and financing. An FADC, however, would be more focused on agribusiness-related ventures, and would very likely include specialized equipment for developing prototypes of new products and producing limited quantities for test marketing.

b. *Tanzania*:

There are several programs in Tanzania that show promise for ISME agribusiness development. The Tanzanian Venture Capital Fund (TVCF), discussed earlier, has now had nearly two years of valuable experience screening and investing in medium and larger scale enterprises.

The Business Development Centre (BDC) in Dar Es Salaam, funded by USAID and the World Bank, trains business consultants and provides entrepreneurs with practical training that directly addresses the specific operating needs of their enterprises.

Recognizing the need for small business financing, USAID has wisely made credit available for graduates of the BDC through a new privately-owned bank, the First Adile Bank.

A well-conceived project is being developed and funded by Dutch and British government agencies in the Lake Zone of Tanzania, centered in Tanzania's second largest city, Mwanza, located on the shores of Lake Victoria. Lake Victoria's waters and shoreline are divided among three nations: Tanzania, Uganda, and Kenya, creating excellent opportunities for regional development and trade between the three countries. The proposed Lake Zone Development Project would combine many elements necessary for successful enterprise development: venture capital, business services, technical assistance, training, and tax incentives and concessions from the Government of Tanzania.

Implications: Linkages between programs providing technical assistance to entrepreneurs and those providing financing are very important to the success of new ventures. It is a very serious distraction for entrepreneurs when they must spend a lot of time away from their core business activities looking for operating capital.

c. Mozambique:

The Institute Nacional de Desenvolvimento da Industria Local (IDIL) of Mozambique [National Institute of Local Industry Development] provides training and financing to entrepreneurs in micro, small and medium-sized enterprises throughout Mozambique.

IDIL's relative success in training and lending to micro-enterprises and SME's has made it an attractive recipient for continued and expanded funding by its current sponsors, MinCom, SwedAID, and the World Bank. During the past 8 years, even in the midst of a civil war, IDIL was able to develop and maintain a nationwide, grassroots outreach network.

Implications: Local acceptance and support are critical to the success of FADC's and other enterprise development centers. IDIL's success suggests that its field personnel involved local leaders to the extent that those leaders felt some "ownership" of the program, i.e. IDIL became "our" program rather than "their" program (whichever government happened to be in power).

4.7 Food and Agribusiness Enterprise Development Centers

There is a small but growing number of business incubation programs worldwide that include an emphasis on agribusiness ventures, although usually not to the exclusion of other types of enterprises.

a. United States:

Within the United States, the best-known FADC is the Kitchen Center in Spokane, Washington. The Kitchen Center, established in 1985 by the Spokane Business Incubator, the first dedicated "agribusiness" incubator in the United States, is a licensed commercial food production facility used by entrepreneurs on a time sharing basis to prepare prototype products and limited production runs for test marketing and special orders. Some entrepreneurs utilize the Center for production until their volume is sufficient to justify establishing their own licensed facilities.

The Kitchen Center's facilities include commercial ovens, ranges, freezers, mixers and a walk-in cooler. Other shared facilities and services include reception, phone answering, mail, copy machine, facsimile machine, personal computers and software, reference library and on-site technical assistance and business counseling. Center staff routinely assist clients in the areas of product development, marketing, shelf-life and compliance with product labeling regulations.

According to Velora LaMunyon, organizer and Director of the Kitchen Center, the entrepreneurs who use the Center's facilities have marketable products but lack the capital needed to establish their own commercial facilities. Government health and licensing requirements make it nearly impossible for entrepreneurs to produce commercial food products in their home kitchens, so the Kitchen Center provides an excellent way to overcome what is otherwise a serious capital barrier to entry for new food firms. (LaMunyon)

One notable agribusiness client was a farmer who used the Kitchen Center for one week to process 6,000 pounds of pumpkin into puree which he sold to manufacturers of baby food and pie filling.

Rural Alabama Incubator Network: Hub and Spokes

The Business Innovation Center (BIC) in Mobile, Alabama has been offering assistance in developing networks of rural incubators in Alabama and Mississippi. These systems are being formed under various types of sponsorship, but all are utilizing the theory of "critical mass" hubs and satellites. The BIC itself was established in March of 1987 with sponsorship and funding from the City of Mobile, County of Mobile, Mobile Area Chamber of Commerce and University of Southern Alabama.(Shaffer and Gordon, 1991)

Each of the rural, "satellite" incubators consists of a multi-tenant building with

shared facilities and services. Each incubator has a building manager, but technical assistance and local business management workshops are provided on a "circuit riding" basis by experienced professionals based in Mobile. These professionals spend at least 1 day weekly assisting entrepreneurs at each of the rural incubators. This assistance includes help with packaging applications for loans and other financial assistance from a variety of sources.

According to BIC Director E. Lynn Stacey, the key to success in rural business development is market research to identify products in demand which can be made locally and exported beyond the local market. BIC trains entrepreneurs and incubator managers in market gap analysis, market niche identification and new product development. A 32 hour "crash course" in business management was developed for use at the BIC and is also taught through junior colleges, university continuing education programs and local chambers of commerce.

BIC encourages rural entrepreneurs to examine the resources and markets available in their area. Stacey cites the case of a rural incubator in Atmore, Alabama, a town of about 8,000 people, where there are a are a lot of farmers and sportsmen. The most outstanding graduate of the Atmore Incubator is a firm with more $4 million in annual sales that makes deer lure (scent) for deer hunters in a 25,000 square foot facility. A key ingredient in the lure is deer urine which the firm collects from local farmers who raise deer for meat and leather. A second incubator graduate found a way to add value to cut wood which would otherwise be sold to a local pulp mill. The entrepreneur cuts wood to fireplace size and trucks it to Dallas, Texas where it is sold for firewood.

BIC Director Lynn Stacey emphasizes the value of finding products which can bring new income streams to the local economy through export sales or through import substitution.

Implications for FADC's: Depending upon how difficult and/or dangerous it is to travel between population centers, this "wheel and spokes" approach to establishing a network of rural FADC's, including "circuit riding" professionals, could be appropriate in some developing nations. This could be especially true where it is very difficult to persuade experienced business managers to leave the relative comfort and sophistication of larger cities for a position in smaller towns lacking comparable amenities. At the same time, the building manager for local incubators could be a person with roots in the local community who wants to be there.

With training and on-the-job experience as "apprentices" to the visiting professionals, these local building managers could assume more and more of the

responsibility for providing technical assistance to local entrepreneurs.

Where such infrastructure is otherwise lacking, rural FADC's could provide both international communication links and climate-controlled storage facilities for value-added food products prepared by FADC clients. The FADC could also become an aggregation and shipping point for products bound for larger cities and ports.

b. Brazil

Several business incubators in Brazil include an agribusiness and biotechnology orientation:

PADETEC, the Parque de Desenvolvimento Tecnologico, is located in Fortaleza and sponsored by the Federal University of Cear<. PADETEC focuses on enterprises involved in the commercialization of natural products, medicinal plants, biochemicals, foods, drugs, essential oils, and electronics. PADETEC's 15 tenant enterprises (June, 1995) are involved specifically in these product areas as follows:

- Foaming agents, plastics, and other products made from cashew nut liquid. (2 firms)
- Controlled, nutritionally complete meals for patients with special diet requirements.
- Vitamin C Diet Supplements from acerola berries.
- Extraction of azelaic acid from castor oil for use as the principal active ingredient in anti-acne medicines.
- Precision machine shop specializing in the development of cashew processing equipment.
- Chitin extracts produced from crustacean shells and fish byproducts.
- Medicinal capsules containing processed shark cartilage.
- Omega 3 oil extracted from fish native to the Northeast Region and sold to

the pharmaceutical and food industries.

- Analytical laboratory specializing in the detection of environmental pollutants and impurities or contaminants in drugs, medicines, vegetable oils, and foods.

The Technology Development Support Center, located in Brazilia, is a technology incubator affiliated with the University of Brasilia. More than one quarter of the tenant enterprises in the Development Support Center also have an agribusiness/biotechnology emphasis. These include ventures in the following areas:

- Instruments for measuring groundwater tension to assist in optimum use and maintenance of irrigations systems.

- Micropropagation of seedlings for large scale plantings of banana, pineapple and papaya.

- Reproduction through tissue cloning of fruit and ornamental plants for large scale production.

- Technical assistance and consultancy for agro-forestry and environmental management.

Implications for FADC's: FADC's can and should develop close relationships with local universities and institutes. Jointly, they can explore the development of higher value-added products produced from locally available resources. FADC's can help universities and institutes create "spin-off" enterprises through which the results of academic research can be commercialized, thus generating income for both the researchers and their institutions.

c. Peoples Republic of China

From 1987 through the end of 1994, a total of 73 business incubators, referred to as "new and high technology innovation centers" (NTIDC's), had been established throughout the Peoples Republic of China. Of these, 52 were located within science and industry parks known as "New and High Technology Industry Development Zones (NTIDZ's)" established under the China Torch Program.(PRC-2) The remaining 21 innovation centers are located in other

science and industry parks located throughout China, of which there are 70 more.

The technology-focused China Torch Program was designed to strengthen economic reforms and stimulate technology commercialization and entrepreneurship by creating a supportive environment and infrastructure to assist new enterprises.

In addition to the commercialization of technologies new to China, a major goal of the NTIDZ program has been to incubate new enterprises and entrepreneurs which will disseminate new technologies and market-oriented management techniques to China's traditional industries. In addition to this internal focus, the NTIDZ's were to serve as a communication "window" to the world outside the PRC through which information and technology could flow more freely.

China's new and high technology innovation centers are based on the western model for new technology incubators. These innovation center/incubators designed to provide entrepreneurs with a full range of services that includes shared space, shared facilities and business consulting. The centers assist entrepreneurs with financing, insurance, business law, export/import, patent law, training, materials supply, accounting, and product testing.(PRC-3)

By the end of 1993, statistics from 51 of the NTIDZ innovation centers reported that a total of 2,011 new enterprises had been incubated, of which 156 had already "graduated". Of the 2,011, 1,696 were actually housed within the innovation centers, and these tenant enterprises were reported to have created new 20,352 jobs.(PRC-3)

Agribusiness Enterprises in Chinese Incubators

Most of the enterprises being incubated in PRC incubators or innovation centers are in the "higher tech" areas of new materials, electronics, informatics, biotechnology, automated materials handling, energy-related products, and environmental protection technology. Some of the new enterprises, however, definitely fall within the definition of agribusiness.

The following are agribusiness ventures located in the Daqing High-Tech Development Zone in Northern China (PRC-4):

- Crop yield enhancers: Kaite Fine Chemical Engineering.

- Agricultural machinery: Hongyuan Machinery Co.
- Mineral water: Hemingquan Natural Mineral Water Company
- Health beverages: Jilin Weitebatao Company, Daqing Subsidiary
- Health beverages: Huanggong Health Drink, Ltd.
- Beverages: Guannan Drinks Ltd.
- Fertilizer: Jinsong Fertilizer Works

Recent publications (PRC-2) cite agribusiness-related venture activity at a number of other incubators as well:

- Value-Added Agricultural Products: The Fuzhou Science and Technology Park in Fujian Province includes a venture producing "green food instant noodle of coarse food grain and vegetable." In Hubei Province, the Baoding NTIDZ has enterprises developing "new foodstuff technology", and, in Shaanxi Province, enterprises are commercializing "agricultural product processing technology".
- High, Value-Added Products from Natural Sources: Within the Shenzhen Science and Technology Park near Hong Kong, there are enterprises producing "natural plant drugs" [pharmaceuticals derived from medicinal plants]. In coastal Qingdao, which is also a center for marine biology studies, the Qingdao High-Tech Industrial Park is incubating a venture producing biochemical products from marine algae.
- Agricultural Machinery: In Jiangsu Province, the Wuxi HNTIDZ has one or more ventures producing innovative agricultural machinery.

Lessons Learned From Chinese Incubators Relevant to F.A.D.C.'s

The Chinese experience with business incubators has shown the value of strong public sector support. It has also shown the importance of insuring that a spectrum of critical material and informational resources are available to qualified entrepreneurs. It makes no difference whether the enterprise is agribusiness-related or semiconductor-related.

All new technology-driven enterprises require access to market information, technology, financing, and business management assistance. When such resources are available under the same roof or in the same industrial park, entrepreneurs are saved the enormous cost in time and money of searching out these resources independently. Time and money saved can be better employed in meeting with customers, developing their employees, and growing their businesses.

In a report to the United Nations Development Program (PRC-3), the following factors were cited as important to the success of the Chinese innovation/incubation centers:

- Government support, particularly financial.

- "Science parks provide innovation centers with necessary policy environment and infrastructure conditions, while the innovation centers in turn help to implement and perfect the service supporting system for [enterprises within the] science parks."

- Thorough feasibility studies should be a prerequisite for establishing innovation centers. These studies should examine and evaluate local scientific, technical, and intellectual resources available to assist new enterprises. An important factor contributing to feasibility is the economic strength of the local economy in terms of demand and market growth.

5.0 Factors Contributing to Success in S.M.E. and S.M.A.E. Development

5.1 Evaluations of Microenterprise Programs

There have been a number of recent "stocktakings" of USAID-funded microenterprise programs such as Boomgard (1989) and DeSantis et. al. (1989). These stocktakings were summarized in an internal USAID document, "Compendium of Evaluation Findings Microenterprise Development" dated March, 1994, and included the following "success" factors which have particular relevance for SMAE development in Africa and elsewhere:

a. In terms of cost-effectiveness, "Enterprise expansion [assistance to existing microbusinesses with growth potential] was the most successful approach in reaching large numbers of firms at relatively low cost per beneficiary."

b. "The most successful programs emphasized the development of sustainable services [to entrepreneurs]. Those targeting special disadvantaged groups or community development were less successful."

   Such targeting, e.g. of the neediest groups or regions, runs the danger of underestimating the endemic and deeply-rooted problems contributing to such poverty, as well as the limited purchasing power that produces feeble market demand in highly impoverished areas. Further, such targeting may overlook the importance of above-average motivation and self-confidence to successful entrepreneurship. The "poorest of the poor", engaged in a daily struggle for survival, are frequently so overwhelmed by their immediate needs and problems as to have few reserves [physical, emotional, or financial] available to establish viable micro-enterprises.)

The 1994 "Compendium..." recommended USAID (1) Focus on enterprise expansion programs, (2) Promote the development of microlenders into sustainable, financially-viable intermediary lenders with market-based interest rates, (3) Exercise caution with respect to technical assistance-intensive programs, and (4) Develop effective systems for performance tracking of microenterprise activities.

5.2 Agribusiness Enterprise Development Program Evaluation

5.2.1 The 1994 Kumar Report

A USAID Program and Operations Report entitled, "Generating Broad-based Growth Through Agribusiness Promotion: Assessment of AID's Experience" was completed by Krishna Kumar of the USAID Center for Development Information and Evaluation in August of 1994. Several of the findings and recommendations of this report, noted below, have particular relevance for future SMAE development efforts and the potential for food and agribusiness development centers (FADC's).

a. "A majority of the case-study programs which aimed at increasing Non-traditional Agricultural Exports (NTAEs) produced promising results. They not only succeeded in increasing NTAEs, thereby earning precious foreign exchange, but also in creating a business climate conducive to the growth of the private sector."

b. In Latin America and the Caribbean, "Small farmers have been major beneficiaries of agribusiness programs... [and]...Contract farming provided an effective institutional mechanism to give small farmers access to national and foreign markets as well as production technology."

c. Agribusiness expansion had a multiplier effect throughout the economy and, "contributed to the emergence of related industrial and service firms involved in packaging, advertising, transporting, shipping and accounting."

5.2.2 Success Factors Identified by Kumar

Kumar identified a number of factors which appeared to be key variables accounting for the success of some agribusiness programs and the lesser degrees of success of others. Several of these factors are particularly relevant for agribusiness development and the design and implementation of FADC's:

a. *Focused, realistic strategies grounded in facts*: Focused, empirically grounded program frameworks incorporating realistic assessments of constraints tended to have positive results.

Implication for FADC's: *Prerequisites for establishing FADC's should include favorable findings of feasibility and realistic, fact-based business plans that objectively assess both constraints and comparative advantages.*

b. *Supportive Infrastructure*: A factor, "...critical to the success of export-oriented agribusiness interventions was the adequacy of physical and institutional infrastructure for agricultural, particularly private sector, activity."

Implication for FADC's: *FADC's should not be established where the physical, institutional, and policy/legal infrastructures are inadequate, unsupportive of, or hostile toward private sector entrepreneurship.*

c. *Continued government commitment and support*, "...especially in programs with privatization, policy reform and infrastructure components," is critical to success.

Implication for FADC's: *Priority in the establishment of FADC's should be given to nations where the host government has demonstrated commitment and support in the form of a favorable policy environment, infrastructure improvements, and willingness to cost share the FADC program until it can become self-sufficient*.

In this context, a "favorable policy environment" would be one which encourages entrepreneurship, competition, and market-driven economic development. Examples of unfavorable policies would be price controls on foodstuffs that rob producers of the incentive to produce, and excessive bureaucracy and cronyism that discourages or prevent new competitors from coming into the market.

d. *Need for Private Sector Input and Involvement*: Kumar notes that "Most agribusiness programs had little input from agribusinesses and entrepreneurs at the design stage. Consequently, design documents did not focus on their problems, needs and expectations." He notes, "Agribusiness programs which established close relationships with private sector firms were more successful than others."

Implication for FADC's: *The potential for private sector input and involvement should be a key factor evaluated in FADC feasibility studies. Further, the private sector should be involved in the development of the business plan for the FADC and should be asked to make specific commitments of future support for the FADC.*

e. *Familiarity of Technical Advisors with Private Sector Dynamics*: Kumar notes that despite the fact that they were guiding private agribusiness, most technical advisors during early program phases came from public sector backgrounds and lacked practical, private sector experience. As they learned from experience on-the-job, program performance improved.

Implication for FADC's: *It is essential that the managers of FADC's be individuals who have had training and practical, positive experience in private business management. Ideally, the manager should be a national of the host government*.

5.2.3 Kumar's Recommendations Relevant to SMAE Development

Kumar makes a number of recommendations to USAID, of which the following are particularly future SMAE and FADC development efforts:

a. "Agribusiness development programs should follow the lead of the private sector, not take the lead. This requires that programs not be too narrowly or rigidly designed."

b. [In Latin America and the Caribbean], Contract farming has provided an effective institutional mechanism linking processors and marketers of many high value cash crops (particularly NTAEs) to small farmers.

c. "Since small- and medium-size firms dominate the agribusiness sector in developing countries, USAID should continue to design interventions focussed on these enterprises."

5.2.4 Examples of Integrated Agribusiness Projects

The projects described below are meant only to be illustrative in that they incorporate a number of elements which Kumar and others have identified as key success variables. In these respects, they may be seen as prototypical.

a. *"Pipil" Certified Organic Coffee*: In El Salvador, the Cooperative League of the USA (CLUSA) is working with rural cooperatives, small producer groups, and exporters to increase the production and marketing of non-traditional agricultural exports.

One group being assisted, UCRABOMEX, functions as both a purchasing co-op for its members (primarily for fertilizer) and as a marketing co-op for member-produced coffee, marigold flowers, and cashew nuts.

One innovative NTAE project which has achieved initial success has been the production, and marketing of certified "organically-grown" coffee under the "Pipil" label to a growing international market for "organic" products certified free of pesticide and herbicide residues.

UCRABOMEX, with CLUSA assistance, worked with its member coffee cooperatives such as Santa Adeleida near Santa Tecla to set aside coffee acreage which would only be cultivated using environmentally sound, organic technologies such as the use of compost for fertilizer and biological pest controls.

The "organic" coffee is specially bagged, labeled and recorded to insure that it is not mixed with the other coffee, and the entire process is periodically inspected under an internationally recognized certification process.

"Pipil" certified organic coffee is now being exported to specialty markets in Japan, Canada, Germany and the U.S.A. at prices which represent a substantial premium over "generic" arabica coffee. During its first year of operation, 1993-1994, nearly 350,000 pounds of certified organic coffee was processed and sold.

Rather than rely on export sales of "green" (unroasted coffee), UCRABOMEX has aggressively entered the Salvadorean consumer market for ground, roasted coffee. The blend preferred by Salvadorean coffee drinkers is roasted daily, ground, packaged, and delivered to stores within 24 hours. The combination of a premium export price and a steady, growing local demand makes "Pipil" less dependent on sometimes wild price swings in the international coffee markets.

Lessons Learned: UCRABOMEX still suffers from some of the problems shared by cooperatives previously established with government assistance. Its management, however, is increasingly professional and businesslike, and the Pipil coffee project incorporates some key elements for successful agribusiness development:

- Market-driven development and promotion of value-added "niche" products that command premium prices.

- "Branding", that is, establishing a proprietary and easily identified trademark such as "Pipil" that can be extended to a "family" of products.

- Meeting international standards required for "certification" recognized by the niche market.

- Reducing market risk by developing both domestic and export markets for value-added products.

b. Productos "El CastaZo", Sonsonate, El Salvador

Productos "El CastaZo" is a food processing and marketing enterprise in the city of Sonsonate, El Salvador, that has been receiving technical assistance from Technoserve, a USAID-funded PVO.

Established about 8 years ago by a group of women living in Sonsonate, El CastaZo produces and markets a variety of processed food products in a clean and modern plant employing 80 persons, 70 of them women. Products currently made include a variety of tomato-based items including canned tomatoes, flavored tomato pastes, catsup, Worcestershire sauce, canned jalapeZas and several types of hot chile sauce.

Along with technical assistance, Technoserve helped "El CastaZo get a working capital loan for financing. El CastaZo repaid that guaranteed loan and subsequent bank loans on time and now has no problem getting bank financing. El CastaZo is an employee-owned cooperative, and some profits have been reinvested into local school improvements and the extension of electricity and water service to the neighborhoods where employees live.

El CastaZo products are sold mainly in Salvador, with some products being exported to Europe and neighboring countries. The women-owners and general manager of El CastaZo continually evaluate competitors' products and experiment with new products, new packaging and new product recipes. They use focus groups to do taste tests and comparisons, and their plant includes a small laboratory and kitchen for quality testing and product development.

Lessons Learned: The success of El CastaZo points to a number of elements common

to successful development of small and medium-sized agribusiness enterprises.

- Given the opportunity, women may prove to be very successful agribusiness entrepreneurs.
- Importance of continuing access to appropriate technical assistance and mentoring as new enterprises succeed and grow.
- Insuring initial access to financing along with technical assistance when credit or investment is unavailable locally. Once enterprises have shown themselves to be profitable and credit worthy, traditional sources of lending such as local banks often become willing to extend credit.
- Technical assistance should prepare and require entrepreneurs to face the "discipline of the marketplace".
- Use of consumer testing, feedback, and competitor product analysis to continually improve products.
- Development of both domestic and export markets.
- Branding with an easily recognized trademark which can be extended to a wide range of products.

5.3 Factors Contributing or Essential to Success

5.3.1 *Internal Factors*

There are a number of factors internal or intrinsic to enterprise development programs which predispose them to successful outcomes. These include:

a. *Market Demand-Driven Production*: Production of value-added or non-traditional agricultural products by entrepreneurs and farmers is tailored to the expressed needs and specifications of interested buyers in specific, proven markets.

Such demand-driven, customer-informed production removes much of the market risk that producers traditionally been exposed to, and it allows producers to target more lucrative domestic and export market "niches" for specialty products.

b. *Local Markets and Export Potential*: Import substitution can stimulate local production and sales to the domestic market under certain circumstances, particularly where the locally-produced foodstuffs are cheaper than imports or possess a quality attribute preferred by local consumers.

Successful agribusiness enterprises often concentrate initially on selling to local markets where they can compete favorably against imported goods. They then use the proceeds and experience they have gained from local sales to expand into international markets.

Examples of this strategy from current projects in El Salvador include "Pipil" organically-grown coffee and "El CastaZo" brand tomato-based sauces.

c. *Local Self-Sufficiency*: Successful programs strive to become sustainable and self-sufficient and encourage the entrepreneurs they assist to do likewise. In addition, they employ local nationals and develop their expertise instead of relying on expensive foreign consultants. In this way, the program, or private service providers "spun off" from the program, will still be there to assist entrepreneurs after outside funding has come to an end.

Programs which are dependent upon the "expertise" of developed country expatriates and highly-priced consultants will nearly always disappear as soon as external funding dries up. Where the expertise is held by local nationals, operating costs and overhead can be reduced substantially. In the event that an NGO employing them closes their program and lays them off, they have the opportunity to continue assisting local enterprises on a private enterprise basis as self-employed technical advisors.

d. *Advisors with Relevant Private Sector Experience*: Persons serving as advisors or providers of technical assistance have experience in private sector business management and marketing. As Kumar (1994) notes, this

has often not been the case in the past.

e. *Flexibility*: Markets and market opportunities are constantly changing, and programs assisting SMAE's must have the flexibility to respond to the changing needs of their clients for information, technology, technical assistance, marketing help, and financing.

This implies, as Kumar also suggests, that contractual agreements under which USAID funds enterprise development activities must allow for considerable flexibility and discretion on the part of grantees and subcontractors in the actual implementation of program activities.

f. *Long-Term Commitment and Assistance*: A universal reality of business development is that it usually takes years to successfully "grow" a business. This is particularly true for agribusinesses which are tied to crop growth cycles and market "windows of opportunity".

For most entrepreneurs, starting a business is an "on-the-job learning" experience. Experienced venture capitalists and business development experts know that the establishment of successful business enterprises generally takes twice as much time and twice as much money as originally anticipated by entrepreneurs in their business plans.

Small and medium scale agribusiness enterprise development is best accomplished when there is continuity in the provision of technical assistance and other resources from inception until the enterprise is firmly established and self-sufficient. This can easily take 2, 3, or 4 years. At each stage of growth, there are new challenges and new problems to be solved. The assisted agribusiness enterprises themselves must be continually adapting and changing to successfully position themselves in the market to respond to competitive threats and new opportunities.

5.3.2 External Success Factors

External factors that support successful SMAE development include the following:

a. *A favorable public policy environment and legal infrastructure*: Businesses tend to thrive where there is relative political stability and where there are laws regulating commercial activity (commercial codes) and courts that enforce those laws in an even-handed manner.

A favorable policy environment is, in addition, one where the government facilitates enterprise development or, at a minimum, does not throw up obstacles

or barriers such as price controls, excessive taxation, lengthy delays in obtaining necessary permits and licenses, or overvalued exchange rates that artificially cheapen imports while making exports noncompetitive.

b. *Local Synergies With Other Private Enterprises*: Successful projects involve and benefit other private enterprises so that success is mutually beneficial.

For example, in 1979, human-powered treadle pumps for irrigation were introduced to small farmers in Bangladesh by a Bangladeshi NGO with support from the Swiss and Canadian government development agencies. International Development Enterprises (IDE), a U.S. NGO, also became involved in dissemination of the pump in 1984 and helped to cover the cost of tooling for local manufacturers of the pump.

"By 1988, some 185,000 treadle pumps had been sold and sales were about 65,000 per year. There were 75 manufacturing workshops, 6,000 retail dealers, and 10,000 private installers." (Hyman et. al.)

If the enterprise development program is seen to be a net gain for the community and region in terms of private and public benefits, it is more likely to gain local support, grow, and have an enduring beneficial impact.

The USAID-supported Los Planes Las Pilas Small Producers Project in El Salvador is a pilot project organized by CLUSA that has introduced organic vegetable farming to small farmers in Salvador's highest mountains. The certified organic produce is harvested 2 or 3 times per week, washed, prechilled, graded, packed, and shipped to the capital city, San Salvador, where it is sold to premium restaurants and supermarkets.

In addition to the direct benefits to farmers from the premium prices they receive for their produce, the processing of the produce is carried out by their wives and daughters, providing additional family income.

For buyers of the organic produce the program provides a source of safe, high quality vegetables that are fresher and more attractive than product otherwise available. This translates into a competitive advantage vis a vis other restaurants and retail stores.

The increase in cash income is encouraging more private trucker/traders to come to the area with lumber and other supplies needed by the farmers. These truckers return to Salvador's larger cities with other farm products that they buy from the farmers.

For the Salvadorean economy, the Los Planes Las Pilas organic produce represents import cost and foreign exchange savings, as higher altitude vegetables such as lettuce and spinach are normally imported from the highlands of Guatemala.

Finally, the Los Planes Las Pilas project is a net gain for the environment. The organic gardening techniques being employed build up the fertility of the soil while at the same time eliminating pesticide and herbicide use and costs. Equally important, the cultivation techniques being employed involve, for the first time in that area, the construction of terraces which conserve rainwater and prevent erosion.

Implications for FADC's: The CLUSA El Salvador project already embodies some of the elements of an FADC. It has provided market-driven technical assistance and initial financial support to distributors and farmers, acting as a catalyst in the creation of a self-supporting, mutually beneficial chain of enterprises stretching from mountain gardens to the produce sections of better supermarkets.

In the case of the treadle pump project, the presence of regional FADC's could reinforce and accelerate the success of programs like this. FADC's would be ideal start-up locations for new pump manufacturers, providing safe and secure premises that are easy for customers to find. Through the assistance provided by FADC's, such small manufacturers could expand more rapidly and diversify into the production of other agricultural and/or processing inputs.

c. *Private and Public Sector Support and "Ownership"*:

The probability of success for an enterprise development program is much higher if it enjoys active support and participation from the private and public sectors. A program is more likely to be sustained if the local community feels a sense of ownership--that it is "their" program and that it is producing results that benefit the whole community.

For such a sense of ownership to exist, it is critical that local private sector and public sector opinion leaders be involved in a major way from the start in planning, organizing, and implementing the program or project. Ideally, a local leader, one of the "movers and shakers" of the community, will take the lead and "sell" the concept to other key decision makers, persuading them to participate and contribute. Such local "champions" are in the best position to mobilize local commitments of resources in support of an FADC program.

The active involvement of local leadership can also help the FADC recruit experienced business people and successful entrepreneurs to volunteer their time as "mentors" to work with the new entrepreneurs in the FADC.

Finally, the involvement and support of the local business community can provide FADC-assisted entrepreneurs with valuable business leads and contacts. The businesses represented by the mentors may themselves become customers of, or suppliers to, the FADC entrepreneurs.

d. *Multi-Year Commitments of Funding and Other Support*:

Most private enterprises require at least 2 or 3 years of operation before they reach a "break-even" and begin to enjoy profitability. Similarly, most business incubators require at least 3 to 5 years to achieve a level of self-sustainability.

Agribusiness enterprise development programs are much more likely to succeed if they are supported by multi-year funding commitments (3-5 year minimum) that ensure that they will be in existence long enough to assist new ventures during their critical early stages of development.

e. *Market Mechanisms to Maximize Local Support and "Buy-In"*

The value of using market forces to leverage government resources has been clearly demonstrated by competitive block grant programs in the United States and the positive results of recent "auctions" of public radio frequencies.

Under the Community Development Block Grant (CDBG) Program of the U.S. Department of Housing and Urban Development (DHUD), for example, Native American tribes and communities compete with their peers for grants to fund economic development and infrastructure development projects.

Applications for economic development block grants must include matching commitments of local support, in-kind or in-cash, as well as business plans with sound financial projections showing a positive net present value over the life of the project.

To be eligible for funding, applicants must first meet certain "threshold considerations" which include:

- Demonstrated need consistent with available data.
- Reasonableness of the proposed costs in terms of adequacy and cost-effectiveness.
- Contingent commitments of matching resources by local governments are of an official and legally binding nature.
- Appropriateness in addressing the identified need.
- Timeliness in terms of being implementable and achievable within a reasonable amount of time.
- Demonstration that at least 51% of the persons who would benefit from the project are presently of low and moderate income status.
- Evidence that applicants have or can acquire the administrative and technical capacity to carry out the proposed project.

Economic development grant applications which meet the threshold considerations are then rated and ranked competitively using the following criteria and a point system:

- Projected impact on local income and employment.
- Percent of resources leveraged from other sources.
- Percent of resources provided by private sector.
- Percent of resources provided by local public sector.

Using a multi-stage approach to implementation, similar competitive mechanisms could be used in the establishment of USAID-supported FADC's. For example, in the first stage, the USAID-funded contractor could present both the FADC

concept and the availability of funding for a limited number of FADC's to local governments and the business community throughout a region.

Local governments and private sector leaders would be invited to submit business plan-like proposals for FADC's in their communities. Following an objective review and evaluation of the proposals submitted, the most promising would be selected for multi-year FADC funding and implementation.

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